FOREST ENTERPRISES AUSTRALIA LIMITED
ABN 47 009 553 548
AND CONTROLLED ENTITIES

Financial Report for the year ended 30 June 2009

FOREST ENTERPRISES AUSTRALIA LTD AND CONTROLLED ENTITIES
ANNUAL FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDED
30 JUNE 2009

TABLE OF CONTENTS

The directors present their report together with the financial report of Forest Enterprises Australia Ltd (the Company) and the consolidated financial report of the economic entity, being the Company and its controlled entities, for the year ended 30 June 2009 and the auditors' report thereon.

Directors & Secretaries

The directors and secretary of the Company at any time during or since the end of the financial year are:

Name & Qualification	Age	Experience and special responsibilities
Mr William D Edwards LLb., B.A., MAICD Chairman since November 2004 Appointed 29 November 2002	41	Solicitor Member of the Remuneration & Nomination Committee Member of Corporate Governance & Compliance Committee Member of Audit & Risk Management Committee
Mr Anthony M Cannon B.Sc (For) ANU, MIFA, MACFA, MAICD Executive Director Appointed 25 September 1985	54	Chairman of FEA Plantations Limited (unlisted) Forestry graduate of Australian National University Awarded World Forestry Day Award (Tasmania) in 1999 Primarily responsible for project development, forest industry and government relations and forestry technical support
Mr Michael J Williams B.Bus (Acc), CA, CFP, GAICD Non-Executive Director Appointed 29 November 2002	49	Director of FEA Plantations Limited (unlisted) Principal of Camerons Accountants & Advisors (Tasmanian accountancy practice) Chair of the Audit & Risk Management Committee Member of Corporate Governance & Compliance Committee Member of the Remuneration & Nomination Committee
Mr Desmond P King FAICD Non-Executive Director Appointed 20 December 2002	72	Former CEO of Private Forests Tasmania Over 50 years experience in the forestry industry Chairman of the Corporate Governance & Compliance Committee Member of Audit & Risk Management Committee Member of the Remuneration & Nomination Committee
Mr Vincent M Erasmus Nat. Diploma in Forestry (Sth. Af) Non-Executive Director Appointed 10 October 2007	51	CEO of ITC Ltd (formerly listed) since February 2006 Over 20 years of experience in senior management positions in the South African timber industry
Mr David A Taylor BA (Econ), Dip PM, FAICD Non-Executive Director Appointed 24 August 2009	67	Extensive experience in senior management positions in the banking industry Director of Agrifood Skills Australia Former Chairman of Forest Products Commission (WA) Chairman of the Remuneration & Nomination committee Member of Audit & Risk Management committee
Mr Leslie P Wozniczka MBA, B.Sc (Hons) Non-Executive Director Appointed 2 August 2005 Resigned 13 October 2008	53	Executive Director of Elders Ltd (listed) since January 2002 Non-executive director of ITC Ltd (formerly listed) since May 2003 Non-executive director of Australian Agricultural Company Ltd since October 2004 Non-executive director of Amcom Ltd since February 2007
Mr Donald C Taylor B.Com, CA, Grad.Cert.Rur.Sc, FAICD Non-Executive Director Appointed 10 October 2007 Resigned 15 October 2008	58	Chartered Accountant Chairman of GrainCorp Limited since December 2005

Secretaries

Name & Qualification	Age	Experience and special responsibilities
Mr Fergus G Leicester B.Bus (Acc), MBA, FCPA, FCIS, GAICD Company Secretary Appointed 31 March 2005	37	Chief Financial Officer of Forest Enterprises Australia Ltd since March 2005 16 years experience in finance roles in the timber industry
Ms M Alison Hoban B.Com, B.A., CA Company Secretary Appointed 31 March 2009	30	Deputy Chief Financial Officer of Forest Enterprises Australia Ltd since March 2009 9 years experience in chartered accounting and commerce

PRINCIPAL ACTIVITIES

The economic entity is a vertically integrated forestry and forest products company, undertaking the following activities:

- sales of woodlot investments through forestry investments;
- preparation, establishment and maintenance of plantations;
- timber harvesting;
- provision of finance to approved growers;
- sawmilling and wood chipping of forest produce; and
- direct exporting of forest produce to Asian markets.

REVIEW AND RESULTS OF OPERATIONS

Results of Operations
The economic entity recorded a loss after tax of $14.13m for the year (2008: profit $43.57m). This represents a decrease of approximately $57.70m.

The net loss for the period is primarily attributable to lower than anticipated new sales from the company's forestry investments following the administration of both Timbercorp Ltd and Great Southern Ltd, higher short term operating costs and lower than expected production throughput during plant commissioning of the new Bell Bay sawmill, and higher financing costs.

Operating revenue was up 9.5% from the prior year to $152.487m, predominantly due to an increase in revenue from sale of Forest Products.

Review of operations

Forestry Investments
FEA Plantations project 2009 is an innovative, flexible and competitively priced forestry investment that has been highly rated by Australia's leading forestry investment researchers. However, as most forestry investments are made in the final months of the financial year (May and June), the impact of Timbercorp and Great Southern entering administration in late April and mid-May respectively combined with the effects of the global financial crisis on the domestic economy, created uncertainty regarding all agribusiness investment.

Ultimately, sales of $23.3m were realised which represented almost an 80% reduction in sales from 2008 financial year result of $114.5m.

On a positive note, the lower than anticipated sales means that FEA already holds sufficient land for the required plantation establishment, and other than purchases committed prior to 30 June, no further expenditure will be required.

Forest Products
During 2008 FEA opened its state-of-the art sawmill at Bell Bay Tasmania, expanding upon its existing milling operations of hardwood logs harvested from its own growers' plantations. Due to a longer than anticipated ramp-up period, higher operating costs, and lower levels of productivity than planned has resulted in a loss for the period. Recent improvements in the operational performance of the sawmill indicate increased productivity and reduced proportion of low grade merchant products.

Forest products segment revenue has increased 54% to $70.1 million, however profit has decreased by 195% down to $4.3 million loss, which is mainly attributable to higher short term operating costs and lower than expected production throughput during plant commissioning of the new Bell Bay sawmill.

Financing
Current bank facilities total $240.8m, which includes a $231.8m cash advance (revolving line of credit), a $9.0m working capital facility including overdraft, guarantee, equipment finance and credit card facilities. The cash advance facility does not have regular principal repayments and its maturity date is January 2011. FEA sought and received waivers for banking covenants in advance of 30 June 2009, however due to a performance review event resulting in the appointment of an Independent Investigating Accountant during the financial year, all the debt has been classified as a current liability. The company expects to resolve any issues arising from the Independent Investigating Accountant's report including the establishment of new lending covenants by 31 December 2009.

FEA is currently in the process of having its banking covenants reset. Until those financial covenants have been reset, bank debt will remain classified as a current liability. Once the financial covenants have been reset, we intend subsequently to reclassify debt between current and non-current.

As part of an ongoing capital management and debt reduction program, FEA sold a $13m tranche of its loan book during 2009 at 100 cents to the dollar. The current loan book is high-quality, with a low default rate representing 1.3% of the loan book. Further loan book sales are being explored, as is the opportunity for the sale and lease-back of non-core forestry freehold land. FEA is also in the process of raising further capital through a placement to a new cornerstone investor, and a 1:1 fully underwritten Renounceable Rights issue. The Placement was completed on 17 September 2009 and the Renounceable Rights issue is due to close 14 October 2009.

FINANCIAL CONDITION
The cash level at 30 June 2009 is in part a reflection of the receipt of loan funding from preferred financiers, whereas in 2008 all investor loans were funded by FEA. The cash position will be futher strengthened following the completion of the Renounceable Rights issue.

The debt to equity ratio (net debt over net debt plus equity) increased from 28% in the prior year to 39% at year end, following an increase in borrowings to fund land acquisitions and loans to investors in Forestry Investments. As at 30 June 2009, gross debt and net debt was $209.9m and $193.3m respectively.

Cash flow to fund short term future operations will be financed initially from existing cash balances. Consistent with previous years, further funds will become available during the year as woodlot subscriptions are collected from the external Custodian and woodlot loan receivables are collected. In addition to this FEA is in the process of raising capital via a 1:1 fully underwritten renounceable rights issue which will be used for working capital purposes, and has embarked on an asset sales progamme with the aim to sell non-core assets to reduce debt.

RISK MANAGEMENT
The two primary areas of risk management are legal & regulatory compliance and environmental issues. Environmental compliance is separately mentioned below. Legal and regulatory compliance is significant due to the number of regulations covering forestry practices, forestry investments issues and listed public companies. Legal and regulatory compliance issues are monitored by FEA's Corporate Governance & Compliance Committee, as well as the Compliance Committee within FEA Plantations Ltd.

Other risk management areas relevant to the economic entity and monitored on an ongoing basis are:

- availability of staff;
- availability of land;
- establishment, management, maintenance and productivity of plantations
- price and demand for the output of the economic entity;
- financing arrangements; and
- occupational health and safety.

DIVIDENDS
In respect of the financial year ended 30 June 2007, as detailed in the directors' report for that financial year, a final dividend of 2.0c per share franked to 30% at corporate income tax rate was paid to the holders of fully paid ordinary shares on 5 October 2007, totalling $8.1m.

In respect of the financial year ended 30 June 2008, as detailed in the directors' report for that financial year, a final dividend of 2.5c per share franked to 30% at corporate income tax rate was paid to the holders of fully paid ordinary shares on 7 October 2008, totalling $10.1m.

In respect of the financial year ended 30 June 2009, no dividends have been paid or declared since the end of the financial year. The Directors do not recommend the payment of a dividend in respect of the financial year.

STATE OF AFFAIRS

During the financial year, the agribusiness investment industry was pushed into disarray through the administration of Timbercorp and Great Southern in April and mid May respectively. These events, plus the effects of the global financial crisis have resulted in significant uncertainty with agibusiness investments. As a result of this, FEA's Managed Forestry Investment sales were down approximately 80%, in line with a general decrease in investments written for the sector.

The immediate future of the forestry investment market is difficult to predict pending the outcome of the parliamentary inquiry, however changes are being made to the structure of FEA Plantations Project 2010 to further protect investors' interests, pre-empting a probable outcome of the inquiry. FEA is confident that future prospects of the forestry investment industry remain robust.

ENVIRONMENTAL REGULATION

The economic entity's operations are subject to various regulations in relation to plantation establishment, maintenance and harvesting, and its milling operations. The economic entity is committed to achieving a high standard of environmental performance. Management actively monitor compliance with environmental regulations and report to the board on a monthly basis.

The directors are not aware of any material breaches during the period covered by this report.

EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the end of the financial year, FEA has undertaken to raise equity through a share placement to a new cornerstone investor. Further, a fully underwritten, Renounceable, 1:1 Rights issue has been announced. Placement and rights issue will raise approximately $39.5m before costs, with proceeds to be used for working capital purposes.

There has not been any other matter or circumstance, other than as referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

LIKELY DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the economic entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the economic entity. Accordingly this information has not been disclosed in this report.

OPTIONS

Share Options Granted to Directors and Executives

During the financial year, no share options were granted to directors of the Company.

During the financial year, 11,250,000 options were issued to executives of the Company under the employee share option plan approved by shareholders in 2000 (2008: 300,000). Since the end of the financial year no further options have been issued.

Exercise Price	Expiry Date	Number of Ordinary Shares Under Option
$0.6000	22-Sep-11	3,500,000
$0.6600	22-Sep-12	3,500,000
$0.7200	22-Sep-13	3,500,000

No options were exercised by executives during the financial year (2008: nil).

DIRECTORS' MEETINGS

The number of meetings of the board of directors and of each board committee held during the financial year and the numbers of meetings attended by each director were:

	Board of Directors		Audit & Risk Management Committee		Remuneration & Nomination Committee		Corporate Governance & Compliance Committee	
Name	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
W.D. Edwards	13	13	6	6	5	5	3	3
A.M. Cannon	13	12	-	-	-	-	-	-
M.J. Williams	13	13	6	6	3	3	3	3
D.P. King	13	13	6	6	3	3	3	3
V.M. Erasmus	13	12	-	-	-	-	-	-
D.A. Taylor	-	-	-	-	-	-	-	-
L.P. Wozniczka	3	3	2	2	2	2	-	-
D.C. Taylor	3	3	2	2	2	2	-	-

DIRECTORS' INTERESTS

The following table sets out each directors relevant interest in shares and options in shares of the Company and interests in registered schemes of FEA Plantations Ltd as at the date of this report:

Name	Ordinary Shares non beneficial	Ordinary Shares beneficial	Options	Woodlots	Units
W.D. Edwards	67,831	-	-	10	-
A.M. Cannon	-	7,206,862	-	298	10,327
M.J. Williams	6,098,896	-	-	61	-
D.P. King	31,250	-	-	-	-
V.M. Erasmus	-	-	-	-	-
D.A. Taylor	-	-	-	-	-
L.P. Wozniczka	-	-	-	-	-
D.C. Taylor	-	65,000	-	-	-
	6,197,977	7,271,862	-	369	10,327

Woodlots represent timber plantation investment lots in forestry investments operated by FEA Plantations Ltd. Units represent units invested in FEA Timberlands Fund operated by FEA Plantations Ltd.

No options were exercised by directors during the financial year (2008: nil). There are currently no options held by directors.

REMUNERATION REPORT

The Remuneration Committee of the Company is responsible for assisting the Board to ensure that appropriate policies are in place for compensation arrangements for directors and senior executives. The committee ensures that, particularly in respect of the Chief Executive Officer, the remuneration packages promote the long-term growth of shareholder value and are reasonable in comparison with comparable industries. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in the performance of the company. The Company determines the maximum amount of remuneration including thresholds for share-based, where applicable, remuneration for directors and senior executives by resolution. The Company may also grant share options to senior managers based on achievements of company profitability and other key performance measures to provide incentives and align their interests with those of shareholders.

The remuneration of directors, secretaries and senior executives of the Company and relevant group executives of the economic entity ("the directors and senior executives") is agreed by the Board of Directors as a whole. The Remuneration Committee obtains professional advice where necessary to ensure that the Company attracts and retains appropriately qualified, experienced and motivated directors and senior executives who can enhance the performance of the economic entity through their contributions and leadership.

The Board policy is designed to attract suitably qualified candidates, reward the achievements of strategic objectives and achieve the broader outcome of creation of value for shareholders. Therefore, the remuneration structures take into account:

- the capability and experience of the directors and senior executives
- the director's and senior executive's ability to control the relevant performance
- the economic entity's performance
- the amount of incentives within each Director's and senior executive's remuneration.

Remuneration packages include a mix of fixed and variable remuneration and short and long-term performance based incentives.

A number of changes have been made to FEA’s remuneration practices for the financial year 2009/10 in response to the challenging economic environment and FEA’s market performance.

Generally, annual salary reviews are effective 1 July. A freeze has been placed on most salaries, including director and executive remuneration, with the exception of increases required to be paid under industrial awards or agreements.

Non Executive Director Remuneration
Non-executive directors receive fees and do not receive options or bonus payments.

The board seeks to set aggregate remuneration at a level which provides the economic entity with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a General Meeting.

Total remuneration for all non executive directors, last voted on by shareholders at a General Meeting dated 15th November 2007, is not to exceed $600,000 per annum and is set based on advice from external advisors with reference to fees paid to other non executive directors of comparable companies.

Directors who sit on committees, or are a Director of FEA Plantations Ltd or SmartFibre Pty Ltd, receive an additional payment (refer to the Corporate Governance Statement for further details).

CEO employment contract renewal
Mr Andrew White continues in the position of CEO under the term of his new employment contract dated 24 July 2009. Rather than being a further three year term, this new employment contract does not have a fixed term.

Mr White will be provided with remuneration comprising two primary components: Non-Discretionary Remuneration (NDR) and Discretionary Remuneration (DR). The Company may consider other components from time to time, including equity components.

The NDR will increase by an amount at least equal to the CPI increase for Hobart for the 12 months prior to the annual review. Following a request by Mr White, this amount has not increased as a result of the execution of this new employment contract. The NDR is subject to an annual review. The DR is subject to achievement of key performance criteria as determined by the board.

Key Management Personnel Remuneration
The economic entity aims to reward senior executives with a level and mix of remuneration commensurate with their position and responsibilities within the economic entity. Senior executives are given the opportunity to receive their primary remuneration in a variety of forms, including cash and benefits. It is intended that the manner of payment will be optimal for the recipient without creating undue cost for the economic entity. Any fringe benefits tax on these benefits is passed on to the employee. From the 2006/07 financial year, executives have been able to request that a proportion of their base remuneration be used to purchase shares on-market via the FEA Executive Share Plan. During the year 216,402 shares were acquired under the plan (2008: 78,995). Since the end of the financial year no further shares have been acquired under the plan. Shares purchased under this scheme are paid for by the executive out of their base salary. There are no performance conditions to meet in relation to purchase of these shares.

FEA encourages its senior executives to own FEA securities to further align their interests with the interests of other shareholders and has in place the FEA Employee Share Plan (as well as facilitating purchase of FEA shares on-market and operating the FEA Employee Option Plan) to facilitate this.

Short-Term Incentives
The short-term incentive component of senior executives' remuneration may comprise cash and/or shares in FEA and reflects the individual's performance in achieving various objectives over the prior 12 months. The actual short-term incentive payment made to a senior executive depends upon the extent to which targets prescribed for a financial year are met. The targets comprise mainly financial hurdles such as the achievement or out-performance of budget earnings before interest and tax. A smaller portion of the short-term incentive may comprise non-financial hurdles that will add to shareholder value. Short-term incentives are accrued and disclosed for the year of performance, rather than delaying until the year of payment. The CEO and CFO KPI's are aligned with those of General Managers.

Senior executives are able to request that a proportion of any short-term incentive be used to purchase shares on-market via the FEA Executive Share Plan. During the year 689,194 shares were acquired under the Plan (2008: 300,472). Since the end of the financial year no further shares have been acquired under the Plan.

For Financial Year 2009 the proportional target bonus paid to Key Management Personnel was as follows:

	% proportional target bonus
Andrew D. White	0%
Fergus G. Leicester	0%
Ross E. Barlow	0%
Kristen C. McPhail	21%
Mike J. O'Shea	65%
Andrew L.R. Wye	44%
Doug Massey	30%
Chris D. Barnes	49%

Long-Term Incentives

The aim of the long-term incentive is designed to attract, retain and motivate the Chief Executive Officer and all senior executives and to reward those people in a manner that aligns the long-term incentive component of remuneration with the creation of shareholder wealth. The long-term incentive, in most cases, comprises options over shares in FEA.

FEA Employee Share Plan

The Plan, approved by shareholders at a General Meeting held on 9 April 2000, facilitates issue of fully paid ordinary shares in FEA to eligible employees. The maximum issue of shares must not exceed 5% of the total number of issued ordinary FEA shares as at the time of an offer when aggregated with the number of ordinary shares issued during the previous 5 years pursuant to the employee share scheme.

On 4 September 2008, 14,000 shares were issued under the plan (2,000 shares each to 7 Key Management Personnel (KMP), which equated to approximately $1,000 each). Since the end of the financial year, no further shares were issued under the plan. The Plan has been prepared to comply with ASIC Class Order 03/184 for Employee Share Schemes. The Plan satisfies the exemption conditions contained in the Income Tax Assessment Act 1936 to issue $1,000 worth of shares that are income tax free for employees.

FEA Employee Option Plan

The objects of the Plan, approved by shareholders at a General Meeting held on 9 April 2000, are to:

(a) provide an incentive for employees to remain in their employment in the long term; and
(b) recognise the ongoing ability of employees and their expected efforts and contribution in the long term to the performance and success of FEA.

The number of Shares to be received on exercise of an Option which is the subject of an Offer, when aggregated with the number of shares to be issued on unexercised options and shares issued during the previous five years pursuant to the Plan must not exceed 5% of the total number of issued Shares as at the time of the Offer.

Incentive schemes should encourage significantly better than average company performance over the long term. The original structure of exercise prices at 64c, 70c and 77c implies EPS growth of approximately 10%. The exercise price of the first tranche was originally the same as the issue price of the June 2006 share placement. Recipients are not permitted to hedge these options.

The remaining two years imply an EPS growth target of approximately 10%. In accordance with ASX Listing Rules and the Option Plan rules, the exercise prices of unexercised options will be reduced following the issue of new shares under the 1:1 fully underwritten Renounceable Rights issue announced on 16 September 2009.

Options granted were based on prior year results for performance criteria.

Conditions attaching to the Employee Option Plan include:

1) Shares issued as a result of exercising options cannot be disposed during the following 12 months.
2) Executives will not receive loans from the Company to finance the exercise of options.
3) Options will lapse upon cessation of employment.
4) The Remuneration and Nomination Committee determines individual limits.

On 24 September 2006, three tranches of options were issued to Key Management Personnel of the FEA group as follows:

1) 970,000 vest 5 September 2007, expire 24 September 2010, exercise price 63.82 cents per share
2) 970,000 vest 5 September 2008, expire 24 September 2011, exercise price 69.82 cents per share
3) 970,000 vest 5 September 2009, expire 24 September 2012, exercise price 76.82 cents per share

On 24 August 2007, a further 3 tranches of options were issued to an executive of the FEA group as follows:

1) 100,000 vest 17 August 2008, expire 17 August 2011, exercise price 63.82 cents per share
2) 100,000 vest 17 August 2009, expire 17 August 2012, exercise price 69.82 cents per share
3) 100,000 vest 17 August 2010, expire 17 August 2013, exercise price 76.82 cents per share

The following grants of share-based payment compensation to Key Management Personnel relate to the current financial year:

On 22 September 2008, three tranches of options were issued to Key Management Personnel of the FEA group as follows:

1 3,500,000 vest 22 September 2009, expire 22 September 2011, exercise price 60.00 cents per share
2 3,500,000 vest 22 September 2009, expire 22 September 2012, exercise price 66.00 cents per share
3 3,500,000 vest 22 September 2009, expire 22 September 2013, exercise price 72.00 cents per share

The three tranches of options issued on 22 September 2008 were granted to the following executives:

2009	Option series	During the financial year				Total at 30/06/2009 over unissued shares
		no. Granted	no. Vested	% of grant vested	% of grant forfeited	
A.D. White	Issued 28 Sep 2008	4,500,000	nil	nil	nil	6,000,000
F.G. Leicester	Issued 28 Sep 2008	2,250,000	nil	nil	nil	3,000,000
K.C. McPhail	Issued 28 Sep 2008	750,000	nil	nil	nil	900,000
M.J. O'Shea	Issued 28 Sep 2008	750,000	nil	nil	nil	1,050,000
A.L.R. Wye	Issued 28 Sep 2008	750,000	nil	nil	nil	900,000
R.E. Barlow	Issued 28 Sep 2008	750,000	nil	nil	100%	-
D. Massey	Issued 28 Sep 2008	750,000	nil	nil	nil	855,000
C.D. Barnes	Issued 28 Sep 2008	750,000	nil	nil	nil	1,050,000

During the year, executives did not exercise any options that were granted to them as part of their compensation.

Directors of the company do not hold any options over unissued shares in the company at 30 June 2009.

The number of options granted is calculated in accordance with a performance based formula approved by the Remuneration Committee. The formula rewards executives against the extent of the company's and individual's achievement against both qualitative and quantitative criteria from the following financial measures:

- Improvement in share price
- Improvement in net profit
- Rate of staff turnover

Share based payments granted to executives were based on prior year results for the performance criteria.

Employment Contracts

The contracts for service between the company and specified directors and senior executives are on a permanent basis, the terms of which are not expected to change in the near future.

It is the economic entity's policy that employment contracts for executive directors and senior executives, excluding the CEO and CFO/Company Secretary, has been for a term of 3 years, however an alignment process is in place with the expectation that shortly these contracts will be on a permanent basis. These contracts are capable of termination on 6 months notice and that the economic entity retains the right to terminate the contract immediately by making a payment equal to 6 months pay in lieu of notice.

The economic entity has entered into employment contracts with each executive director and senior executive, excluding the CEO and CFO/Company Secretary, that provides for the payment of benefits where the contract is terminated by the economic entity, or the individual.

The economic entity has entered into employment contracts with the CEO and CFO/Company Secretary on a permanent basis, but capable of termination on 12 months notice and that the economic entity retains the right to terminate the contract immediately by making payment equal to 12 months pay in lieu of notice. The contracts provide for the payment of benefits where the contract is terminated by the economic entity or the individual.

The employment contract outlines the components of remuneration paid to the executive directors and senior executives but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

The names and positions of each person who held the position of director at any time during that financial year are provided above. The Key Management Personnel and five named executives in the consolidated group who received the highest remuneration for the financial year are:

Name	**Position**
A.D. White	Chief Executive Officer
F.G. Leicester	Chief Financial Officer & Company Secretary
R.E. Barlow	General Manager - FEA Timber (resigned 16 February 2009)
K.C. McPhail	General Manager - Forestry Investments
A.L.R. Wye	General Manager - SmartFibre
M.J. O'Shea	General Manager - Business Development
C.D. Barnes	General Manager - Plantation Operations
D. Massey	General Manager - Strategic Development

Directors' and Executives' Remuneration

2009	Short-term employee benefits			Post Employment		Equity			Total	Proportion of remuneration performance based	Proportion of remuneration as options
	Salary & Fees $	Cash Bonus# $	Non-monetary $	Super-annuation $	Termination payments $	Shares from base ESP^ $	Shares from bonus# $	Options $	$	%	%
Directors											
W.D. Edwards	81,958	-	-	43,392	-	-	-	-	125,350	0%	0%
A.M. Cannon	58,941	-	2,097	98,962	-	-	-	-	160,000	0%	0%
M.J. Williams	71,500	-	-	6,435	-	-	-	-	77,935	0%	0%
D.P. King	52,000	-	-	4,680	-	-	-	-	56,680	0%	0%
V.M. Erasmus*	-	-	-	-	-	-	-	-	-	0%	0%
D.A. Taylor	-	-	-	-	-	-	-	-	-	0%	0%
L.P. Wozniczka*	-	-	-	-	-	-	-	-	-	0%	0%
D.C. Taylor	17,333	-	-	1,560	-	-	-	-	18,893	0%	0%
Total	**281,732**	**-**	**2,097**	**155,029**	**-**	**-**	**-**	**-**	**438,858**		
Highest paid executives											
A.D. White	400,948	-	6,558	67,494	-	26,000	-	161,868	662,868	0%	24%
F.G. Leicester	333,119	-	5,677	26,204	-	16,000	-	80,934	461,934	0%	18%
R.E. Barlow	182,626	-	5,298	49,296	209,097	1,000	-	-	447,317	0%	0%
K.C. McPhail	210,474	36,771	10,010	45,266	-	1,000	29,732	22,066	355,319	19%	6%
A.L.R. Wye	151,412	26,400	4,263	20,825	-	1,000	-	22,066	225,966	12%	10%
M.J. O'Shea	149,284	16,500	3,395	26,821	-	1,000	16,000	29,434	242,434	13%	12%
C.D. Barnes	146,874	21,262	5,503	22,623	-	6,000	13,038	37,540	252,840	14%	15%
D. Massey	139,896	12,000	9,025	17,579	-	7,000	6,000	19,856	211,356	9%	9%
Total	**1,714,632**	**112,933**	**49,729**	**276,108**	**209,097**	**59,000**	**64,770**	**373,764**	**2,860,033**		

2008	Short-term employee benefits			Post Employment		Equity			Total	Proportion of remuneration performance based	Proportion of remuneration as options
	Salary & Fees $	Cash Bonus# $	Non-monetary $	Super-annuation $	Termination payments $	Shares from base/ESP $	Shares from bonus# $	Options $	$	%	%
Directors											
W.D. Edwards	59,762	-	-	50,000	-	-	-	-	109,762	0.0%	0%
A.M. Cannon	54,417	20,000	2,338	80,445	-	-	-	-	157,200	12.7%	0%
M.J. Williams	64,637	-	-	5,817	-	-	-	-	70,454	0.0%	0%
D.P. King	47,600	-	-	4,284	-	-	-	-	51,884	0.0%	0%
V.M. Erasmus*	-	-	-	-	-	-	-	-	-	0.0%	0%
L.P. Wozniczka*	-	-	-	-	-	-	-	-	-	0.0%	0%
D.C. Taylor	35,755	-	-	3,218	-	-	-	-	38,973	0.0%	0%
Total	**262,171**	**20,000**	**2,338**	**143,764**	**-**	**-**	**-**	**-**	**428,273**		
Highest paid executives											
A.D. White	279,538	200,000	5,212	50,000	-	56,000	115,000	73,681	779,431	40.4%	9%
F.G. Leicester	157,006	60,000	8,682	42,312	-	34,000	30,000	36,840	368,840	24.4%	10%
R.E. Barlow	110,832	40,000	7,056	49,611	-	1,000	10,200	5,158	223,857	22.4%	2%
K.C. McPhail	190,276	195,588	7,209	17,774	-	1,000	130,831	7,368	550,046	59.3%	1%
A.L.R. Wye	141,145	63,600	8,203	16,592		1,000	-	7,368	237,908	26.7%	3%
M.J. O'Shea	150,420	20,200	1,919	19,161	-	1,000	20,200	14,736	227,636	17.7%	6%
C.D. Barnes	124,744	2,761	6,735	18,483	-	12,000	73,000	6,600	244,323	31.0%	3%
D. Massey	69,234	40,400	6,454	6,812	-	-	-	5,158	128,058	31.5%	4%
Total	**1,223,195**	**622,549**	**51,470**	**220,745**	**-**	**106,000**	**379,231**	**156,909**	**2,760,099**		

* Director fees in relation to Mr L Wozniczka are paid to Elders Ltd, and Mr V Erasmus are paid to ITC Ltd not to Mr Wozniczka and Mr Erasmus personally.

Bonus amounts shown in the 2008 table above represent an accrual for the 2007/08 financial year. These performance based remuneration amounts were calculated and paid in August 2008. This is consistent with prior years.

Note: Non-monetary benefits include salary sacrifice amounts for motor vehicle usage.

^ Shares issued under shares from base/ESP are issued either under the FEA Employee Share Plan or the FEA Executive Share Plan.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration, as required under section 307C of the Corporations Act 2001, in relation to the audit for the financial year is provided with this report.

NON-AUDIT SERVICES

During the year, the economic entity's auditors, Pitcher Partners, have performed the following services in addition to their statutory duties.

· Taxation services	$33,000
· Technical reviews	$24,595
· Grant and funding agreement audits	$10,450
· Other	$3,780
	$71,825

The Board has considered the non-audit services provided during the year by the auditor (Pitcher Partners) and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the economic entity and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and

- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in the Code of Ethics for Professional Accountants APES110, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the economic entity, acting as an advocate for the economic entity or jointly sharing risks and rewards.

In accordance with sections 300(11B) and 300 (11C), details of amounts paid or payable to the auditor of the economic entity, and other auditors, for non-audit services provided during the year are included at note 4 to the financial statements.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the economic entity has incurred premiums of $107,015 (2008: $74,223) in respect of agreements to indemnify directors and the company secretaries of Forest Enterprises Australia Ltd and its controlled entities against a liability incurred as such an officer. The premium also includes Forestry Investment cover in respect of the seventeen forestry investments managed by FEA Plantations Ltd.

The Company has not, during or since the financial year, indemnified an auditor of the Company or any related body corporate against a liability incurred as such an auditor.

PROCEEDINGS ON BEHALF OF THE ECONOMIC ENTITY

No person has applied for leave of Court to bring proceedings on behalf of the economic entity.

Rounding of amounts to the nearest thousand dollars

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. In accordance with that Class Order amounts in this report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of Directors made pursuant to section 298(2) of the Corporations Act 2001.

On behalf of the Directors

W.D. Edwards
Director

Launceston, 30 September 2009

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Forest Enterprises Australia Limited and its Controlled Entities

In relation to the independent audit for the year to 30 June 2009, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the Corporations Act 2001.

(ii) No contraventions of any applicable code of professional conduct.

D B RANKIN
Partner
30 September 2009

PITCHER PARTNERS
Melbourne

INCOME STATEMENT
for the year ended 30 June 2009

FOREST ENTERPRISES AUSTRALIA LTD and its Controlled Entities	**Note**	**Consolidated year ended 30 June 09 $'000**	Consolidated year ended 30 June 08 $'000	**Company year ended 30 June 09 $'000**	Company year ended 30 June 08 $'000
Revenue	2(a)	152,487	139,262	137,361	78,164
Other income	2(b)	285	25,879	9,147	5,030
		152,772	165,141	146,508	83,194
Share of profits of associates and jointly controlled entities accounted for using the equity method		641	1,224	641	1,224
Forestry cost of goods sold		(23,899)	(17,243)	(23,404)	(17,065)
Saw & chip milling cost of goods sold		(44,192)	(13,100)	(44,091)	(2,684)
Forestry services expenses		(51,247)	(34,420)	(48,219)	(33,021)
Forestry investment expenses		(12,502)	(22,300)	(7,656)	(2,144)
Overhead expenses		(20,290)	(14,098)	(11,306)	(10,349)
Finance costs		(19,348)	(4,118)	(18,557)	(3,162)
Impairment of non-current assets		(2,806)	-	(4,474)	-
Profit / (loss) before income tax expense / (benefit)	3(a)	(20,871)	61,086	(10,558)	15,993
Income tax (expense) / benefit	3(a)	6,733	(17,519)	3,466	(4,209)
Net profit / (loss) for the year		(14,138)	43,567	(7,093)	11,784
Attributable to:					
Equity holders of the parent		(14,229)	43,567		
Minority interest		91	-		
		(14,138)	43,567		
Earnings / (loss) per share:					
Basic (cents per share)	30	(3.49)	10.75		
Diluted (cents per share)	30	(3.49)	10.64		

The income statement should be read in conjunction with the notes to the financial statements.

BALANCE SHEET
as at 30 June 2009

FOREST ENTERPRISES AUSTRALIA LTD and its Controlled Entities	Note	Consolidated as at 30 June 09 $'000	Consolidated as at 30 June 08 $'000	Company as at 30 June 09 $'000	Company as at 30 June 08 $'000
Current assets					
Cash and cash equivalents	36(a)	16,565	11,974	13,004	378
Receivables	5	24,154	74,196	21,183	70,940
Other financial assets	6	5,694	70,177	206,973	246,015
Inventories	7	12,377	8,665	12,376	8,651
Standing timber	8	2,467	1,922	1,152	799
Current tax assets	3(c)	4,307	-	4,307	-
Other	9	5,121	4,392	2,140	2,164
		70,685	171,326	261,135	328,947
Non-current assets classified as held for sale	10	107,380	2,900	37,380	-
Total current assets		**178,065**	**174,226**	**298,515**	**328,947**
Non-current assets					
Receivables	11	21,297	76,711	21,297	76,711
Investments accounted for using the equity method	12	3,599	5,209	3,599	5,209
Other financial assets	13	15,672	11,959	12,126	12,628
Standing timber	14	20,963	18,310	10,233	8,608
Property, plant and equipment	15	117,418	108,018	105,445	91,979
Investment property	16	231,470	271,767	9,758	6,268
Deferred tax assets	3(d)	2,170	19,673	17,157	1,910
Other intangibles	17	1,801	12	1,801	12
Total non-current assets		**414,390**	**511,659**	**181,416**	**203,325**
Total assets		**592,455**	**685,885**	**479,931**	**532,272**
Current liabilities					
Trade and other payables	19	37,529	102,216	31,510	92,498
Short term borrowings	20	-	2,044	-	2,044
Current portion of long term borrowings	21	208,349	2,109	208,349	2,109
Other current financial liabilities	22	1,344	1,056	1,344	1,056
Current tax payables	3(c)	-	10,281	-	10,281
Other current liabilities	23	30,036	69,539	30,022	69,518
Total current liabilities		**277,258**	**187,245**	**271,225**	**177,506**
Non-current liabilities					
Long term borrowings	24	1,534	137,668	34	125,168
Other non-current financial liabilities	25	10,139	344	10,139	344
Deferred tax liabilities	3(d)	9,918	37,234	-	7,434
Other non-current liabilities	26	2,301	1,854	2,301	1,854
Total non-current liabilities		**23,892**	**177,100**	**12,474**	**134,800**
Total liabilities		**301,150**	**364,345**	**283,699**	**312,306**
Net assets		**291,305**	**321,540**	**196,232**	**219,966**
Equity					
Share capital	27	179,804	179,701	179,804	179,701
Reserves	28	560	7,368	(927)	5,684
Retained earnings	29	110,109	134,471	17,355	34,581
Outside equity interest		832	-	-	-
Total Equity		**291,305**	**321,540**	**196,232**	**219,966**

The balance sheet should be read in conjunction with the notes to the financial statements

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2009

FOREST ENTERPRISES AUSTRALIA LTD
and its Controlled Entities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Fully Paid Ordinary Shares $'000	Asset Revaluation Reserve $'000	Equity-settled employee benefits reserve $'000	Retained earnings $'000	Hedge Reserve $'000	OEI $'000	Total $'000
Balance at 1 July 2007	179,627	4,034	176	98,718	-	-	282,555
Gain / (loss) on property revaluation	-	3,660	-	-	-	-	3,660
Gain / (loss) on cash flow hedges	-	-	-	-	649	-	649
Share based payments	-	-	235	-	-	-	235
Related income tax	-	(1,098)	-	-	-	-	(1,098)
Net income recognised directly in equity	-	2,562	235	-	649	-	3,446
Profit for the period	-	-	-	43,567	-	-	43,567
Total recognised income and expense	-	2,562	235	43,567	649		47,013
Transactions with shareholders in their capacity as shareholders							
Issue of shares	74	-	-	-	-	-	74
Transfer to retained earnings	-	(288)	-	288	-	-	-
Payment of dividends	-	-	-	(8,102)	-	-	(8,102)
Balance at 30 June 2008	179,701	6,308	411	134,471	649	-	321,540
Balance at 1 July 2008	179,701	6,308	411	134,471	649	-	321,540
Gain / (loss) on property revaluation	-	150	-	-	-	-	150
Gain / (loss) on cash flow hedges	-	-	-	-	(10,372)	-	(10,372)
Share based payments	-	-	542	-	-	-	542
Related income tax	-	(45)	-	-	2,917	-	2,872
Net income recognised directly in equity	-	105	542	-	(7,455)	-	(6,808)
							-
Profit / (loss) for the period	-	-	-	(14,229)	-	91	(14,138)
Total recognised income and expense	-	105	542	(14,229)	(7,455)	91	(20,946)
							-
Transactions with shareholders in their capacity as shareholders							
Issue of shares / units	103	-	-	-	-	764	867
Transfer to retained earnings	-	-	-	-	-	-	-
Payment of dividends / distributions	-	-	-	(10,133)	-	(23)	(10,156)
Balance at 30 June 2009	179,804	6,413	953	110,109	(6,806)	832	291,305

COMPANY STATEMENT OF CHANGES IN EQUITY	Fully Paid Ordinary Shares $'000	Asset Revaluation Reserve $'000	Equity-settled employee benefits reserve $'000	Retained earnings $'000	Hedge Reserve $'000	OEI $'000	Total $'000
Balance at 1 July 2008	179,627	3,168	176	30,899	-	-	219,445
Gain / (loss) on property revaluation	-	2,081	-	-	-	-	2,081
Gain / (loss) on cash flow hedges	-	-	-	-	649	-	649
Share based payments	-	-	235	-	-	-	235
Related income tax	-	(625)	-	-	-	-	(625)
Net income recognised directly in equity	-	1,456	235	-	649	-	2,340
Profit for the period	-	-	-	11,784	-	-	11,784
Total recognised income and expense	-	1,456	235	11,784	649	-	14,124
Transactions with shareholders in their capacity as shareholders							
Issue of shares	74	-	-	-	-	-	74
Payment of dividends	-	-	-	(8,102)	-	-	(8,102)
Balance at 30 June 2008	179,701	4,624	411	34,581	649	-	219,966
Balance at 1 July 2008	179,701	4,624	411	34,581	649	-	219,966
Gain / (loss) on property revaluation	-	431	-	-	-	-	431
Gain / (loss) on cash flow hedges	-	-	-	-	(10,372)	-	(10,372)
Share based payments	-	-	542	-	-	-	542
Related income tax	-	(129)	-	-	2,917	-	2,788
Net income recognised directly in equity	-	302	542	-	(7,455)	-	(6,611)
Profit / (loss) for the period	-	-	-	(7,093)	-	-	(7,093)
Total recognised income and expense	-	302	542	(7,093)	(7,455)	-	(13,704)
Transactions with shareholders in their capacity as shareholders							
Issue of shares	103	-	-	-	-	-	103
Payment of dividends	-	-	-	(10,133)	-	-	(10,133)
Balance at 30 June 2009	179,804	4,926	953	17,355	(6,806)	-	196,232

The statement of changes in equity should be read in conjunction with the notes to the financial statements.

STATEMENT OF CASH FLOWS
for the year ended 30 June 2009

FOREST ENTERPRISES AUSTRALIA LTD and its Controlled Entities	Note	Consolidated year ended 30 June 09 $'000	Consolidated year ended 30 June 08 $'000	Company year ended 30 June 09 $'000	Company year ended 30 June 08 $'000
Cash flows from operating activities					
Receipts from customers		175,801	146,350	100,533	110,926
Payments to suppliers and employees		(165,762)	(133,247)	(148,731)	(92,740)
Interest received		7,466	3,704	7,540	3,024
Distributions received		-	-	597	-
Interest and other costs of finance paid		(19,348)	(4,118)	(18,557)	(3,162)
Income tax paid		(14,879)	(4,981)	(14,879)	10,748
Net cash provided by / (used in) operating activities	36(b)	(16,722)	7,708	(73,497)	28,796
Cash flows from investing activities					
Funding of term debtors		(72,938)	(53,883)	(72,938)	(53,883)
Repayments from term debtors		64,043	45,068	64,043	45,068
Proceeds from sale of term debtors		11,598	-	11,598	-
Proceeds from sale of plant & equipment		4,860	1,762	19	236
Payment for property, plant and equipment		(19,254)	(57,337)	(20,472)	(53,513)
Payments for investment properties		(32,521)	(60,024)	(3,137)	(30)
Proceeds from sale of investment properties		5,452	170	-	-
Payment for standing timber		(312)	(855)	(24)	(283)
Payments for intangibles		(546)	(12)	(546)	(12)
Partial realisation of equity accounted investment		2,250	-	2,250	-
Net cash used by investing activities		(37,368)	(125,111)	(19,207)	(62,417)
Cash flows from financing activities					
Proceeds from issues of equity securities		5	74	5	74
Proceeds from units issued		764	-	-	-
Received / (advanced) to related parties		-	-	36,390	(57,749)
Proceeds from borrowings		97,296	96,721	108,296	95,221
Repayment of borrowings		(27,190)	(3,908)	(27,190)	(772)
Distributions paid		(23)	-	-	-
Dividends paid to members of the parent entity		(10,127)	(8,100)	(10,127)	(8,102)
Net cash provided by financing activities		60,725	84,787	107,374	28,672
Net increase / (decrease) in cash and cash equivalents		**6,635**	**(32,616)**	**14,670**	**(4,949)**
Cash and cash equivalents at the beginning of financial year		9,930	42,546	(1,666)	3,283
Cash and cash equivalents at the end of financial year	36(a)	**16,565**	**9,930**	**13,004**	**(1,666)**

The statement of cash flows should be read in conjunction with the notes to the financial statements

Note Contents

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Forest Enterprises Australia Ltd as an individual parent entity and Forest Enterprises Australia Ltd and controlled entities as a consolidated entity. Forest Enterprises Australia Ltd is a company limited by shares, incorporated and domiciled in Australia.

The following is a summary of material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements were authorised for issue by the Directors on 30 September 2009.

Basis of preparation

Compliance with IFRS
Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with the International Financial Reporting Standards (IFRS's).

Historical Cost Convention
The financial report has been prepared under an accruals and historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Going Concern

During the last six months, there has been significant uncertainty in the Managed Investments Scheme industry, largely precipitated by the collapse of Timbercorp Ltd and Great Southern Ltd. This lead to a significant fall in the quantity of Managed Forestry Investment sales that the consolidated entity achieved for the year to 30 June 2009, which has a flow-on effect on profits and cash flow for the same period and the forthcoming year.

The Company also commissioned a new sawmill during the current year, with some operational issues during the ramp-up phase resulting in the operation incurring material losses for the year.

The impact of these two factors has resulted in the consolidated entity incurring a loss for the current year of $14.1m and net operating cash outflows of $16.7m.

As previously announced to the market, an Independent Investigating Accountant was appointed on 14th July 2009. Their report is expected to be used as a basis for discussion between FEA and its financiers regarding revised covenants and continued support for the period to maturity of current debt facilities. FEA and its controlled entities outstanding banking facilities of $206.8m covered by this agreement have been reclassified as current. The investigating accountants report has not been completed as at the date of this report. Whilst the report is being completed, the bankers continue to provide ongoing support within the facility limits.

At the date of this report the Company is in the process of undertaking a fully underwritten Renounceable Rights Issue and a share placement to raise $39.5m before costs. The Placement was completed on 17 September 2009 and the Renounceable Rights issue is due to close 14 October 2009. No events have occurred to suggest that the Rights Issue will not successfully proceed. As agreed in advance with the bankers, all of the proceeds of these issues are to be retained for working capital purposes.

The consolidated entity has classified $107m of assets as held for sale and is in the process of negotiating their disposal in the normal course of business. Under the terms of the current facility agreement 60% of the proceeds of these sales will be applied to reduce bank debt and facility limits.

While there is a lack of certainty over the consolidated entity's future funding until the matters referred to above are finalised, the Directors have formed the view that preparation of the accounts on a Going Concern basis is appropriate. This view is based on the support to date of the Company's bankers and the expectation that the company will seek to resolve any issues arising from the Independent Investigating Accountant's report including the establishment of new lending covenants by 31 December 2009.

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of Forest Enterprises Australia Limited and all of its controlled entities. A list of controlled entities appears in note 34 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist. All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

(c) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation
The parent entity and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation, with effect from 1 July 2003. Forest Enterprises Australia Limited is the head entity in the tax-consolidated group. Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the parent entity (as head entity in the tax consolidated group). The tax consolidated group has also entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

Cash is carried at face value of the amounts deposited. The carrying amounts of cash represents net fair value.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(f) Property, plant and equipment

Cost and valuation
Freehold land and buildings are measured at fair value. At each balance date the carrying value of each asset is reviewed to ensure that it does not differ materially from the asset's fair value at reporting date. Where necessary, the asset is revalued to reflect its fair value. Changes in the carrying amounts arising on revaluation of land and buildings are credited to asset revaluation reserves in shareholders' equity after bringing to account any capital gains tax that would arise on disposal of that asset.

All other classes of property, plant and equipment are measured at cost less depreciation and any accumulated impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. Refer to note 1(i).

Depreciation
Land is not depreciated. The depreciable amounts of all other fixed assets are depreciated on either a straight-line or diminishing value basis, depending on which is most appropriate, over their estimated useful lives commencing from the time the asset is held ready for use.

The useful lives for each class of assets are:

	2009	**2008**
Buildings	40 years	40 years
Plant and equipment	1 to 20 years	1 to 20 years
Roads	20 to 25 years	20 to 25 years
Leasehold land improvements	13 years	13 years

The Consolidated Entity constructs roads on freehold and leasehold land in order to provide access to standing timber and/or to provide access to areas being converted to plantation. Construction expenditure is capitalised and then depreciated. Roads on property not owned by the consolidated entity are depreciated over the life of the relevant forestry right deed (lease). Roads on freehold land are depreciated over 20 - 25 years.

The consolidated entity constructs firebreaks and incurs costs associated with plantation ground preparation. These costs are classified as leasehold land improvements and is capitalised then amortised over the term of the lease or 13 years, whichever is less.

The cost of plant and equipment constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Gain/(loss) on disposal
On disposal of depreciated assets, the difference between the consideration received and the written down value of the asset at the time it is taken to the income statement as a gain or loss on disposal.

(g) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from the rendering of a service is recognised upon delivery of the service to the customer.

Revenues from application fees paid for establishment of managed forestry investments are recognised based on percentage of completion of the contract at balance date. The percentage completion is assessed by considering work performed to balance date, including establishment, management and other relevant costs incurred as a percentage of total estimated costs.

Revenues from annual plantation lease and management fees are recognised by reference to the nature of the agreements. Revenues from growers whose agreements specify annual payment in arrears are recognised over the expected life of the plantation concerned. Revenues from growers whose agreements specify payment in advance are included in liabilities as unearned revenue and brought to account in the period in which the services are provided. Revenues from growers whose agreements specify lease and management fees to be deferred until the point of harvest have revenue recognised annually and are included in assets as accrued revenue. Deferred lease and management fees are set by the individual project's Product Disclosure Statement (PDS) and are calculated based on critical estimates identified in note 1 (t)(v).

Government grants received that relate to specific assets or expenses are deferred and recognised as income in the same period as the asset is consumed or when the associated expenses are incurred.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint ventures are accounted for in accordance with the equity method.

All revenue is stated net of the amount of goods and services tax (GST).

(h) Intangibles

Trademark and other intangibles
Trademarks and other intangible assets are recognised at cost. Trademarks and licenses have an indefinite useful life and are tested annually for impairment in accordance with AASB 136. An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount.

Research and development
Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when it is expected beyond reasonable doubt that future benefits will exceed the deferred costs. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost over a period (not exceeding three years), during which the related benefits are expected to be realised, once commercial production is commenced. Other development expenditure is recognised as an expense when incurred.

(i) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired. An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Employee benefits

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Superannuation
Contributions to employee superannuation plans are expensed when incurred. The consolidated entity does not contribute to defined benefit superannuation plans.

Share based payments
The group operates an employee share option plan and an employee share scheme. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Income Statement in the period(s) when the benefit is earned.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. The fair value of options at grant date is determined using a Black-Scholes option pricing model, and is recognised as an employee expense over the period during which the employees become entitled to the option.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an expense when the employees become entitled to the shares.

(k) Financial instruments

Classification
The group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the designation at each reporting date.

Financial assets at fair value through profit or loss
Investments in listed securities are carried at fair value through profit and loss. They are measured at their fair value at each reporting date and any increment or decrement in fair value from the prior period is recognised in the profit and loss of the current period. Fair value of listed investments are based on current bid prices.

Non-listed investments for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Loans and receivables
Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Financial liabilities
Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(l) Foreign currencies

Transactions and balances
Transactions in foreign currencies of entities within the consolidated entity are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. Resulting exchange differences arising on settlement or re statement are recognised as revenues and expenses for the financial year.

(m) ***Trade debtors***
Trade debtors are generally settled within 60 days and carried at amounts due. The collectability of debts is assessed periodically and specific provision is made for any doubtful accounts. The carrying amount of trade debtors approximates net fair value.

Term debtors
Term debtors represent finance provided to growers. They are brought to account at the time agreements are signed by growers who elect for the finance option. Finance is provided by the Company under the terms of the projects product disclosure statement. Term debtors are secured by a charge over the grower's interest in the timber plantations to which the finance provided relates. Finance is provided by the company under the terms of the projects product disclosure statement.

Term debtors are recognised at face value and all amounts receivable later than 12 months are charged a commercial rate of interest. Collectability of all debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where doubt as to collection exists.

Term debtors which are expected to be sold via the company's loan securitisation facility are reviewed at balance date to ensure the carrying amounts are not recorded in excess of their expected realisable value. Where the carrying amount exceeds the expected realisable value the difference is recorded in the accounts as an expense in the period when the review is undertaken.

Where the carrying amount of term debtors will be recovered principally through a sale transaction rather than through continuing use, the amount is classified as held for sale (1(v)).

(n) Interest-bearing liabilities

Cash advances, bank overdrafts and asset purchase funding arrangements are recognised in the financial statements on the basis of nominal amounts outstanding. Accrued interest at balance date is recognised as part of current liabilities.

(o) Joint venture entities

Interests in joint venture entities that are not partnerships are accounted for under the equity method in both the consolidated financial statements and the Company financial statements.

(p) Investment properties

Investment property, which is plantation land and land held for managed forestry investment purposes, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

The valuations conform to Australian Valuation Standards. The value of the planted areas have been ascertained by calculating Lessor's Interest based on current market rents, which was checked by the Capitalisation approach. This value is combined with the vacant possession value assessed for unplanted land to achieve a total property valuation.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Standing timber

Standing timber comprises timber plantations and native forest acquired by the consolidated entity as part of freehold land purchases, remnant areas after properties have been woodlotted for managed forestry investments, or woodlots in managed forestry investments seized by FEA as security for defaulted loans. Timber plantations refer to forests that are established or acquired by the Consolidated Entity.

The increment or decrement in net market values of standing timber is recognised as revenue or expense in the period in which it occurs. The increment or decrement is determined as the difference between the fair values of the standing timber recognised as at the beginning of the financial year and the fair values of the plantations recognised as at the reporting date less costs incurred during the financial period to acquire and/or plant the trees.

The fair values of the standing timber represent the net present values of estimated future cash flows relating to standing timber owned by the Consolidated Entity determined in accordance with a directors' valuation. Plantations owned by investors in the economic entity's managed forestry investments are excluded from this valuation.

Significant assumptions made in determining the fair value of the standing timber are:

(i) Standing timber is valued based on expected volumes of merchantable timber that could be obtained from existing stands by the estimated harvest date, given current management strategies and legislative and other externally imposed restrictions. The estimated volumes are assessed by qualified and experienced FEA staff. The methodology used to asess the volume takes into account the following: net planted area, estimated growth rates, estimated yield per hectare and expected year of harvest. The native forest estate has been assessed using generally accepted forest measurement techniques.

(ii) The implied rental and other costs associated with the land owned by the consolidated entity on which native forests and plantations are grown.

(iii) The ongoing costs of growing the trees are deducted in determining the net cash flows.

(iv) Costs and prices are based on actual and expected rates inflated at a long term average inflation rate of 2.5%.

(v) The valuation assumes the continuation of existing practices with regard to silviculture and harvesting.

(vi) A nominal pre tax discount rate of 9.5% per annum (2008: 10.0%) is applied to the estimated future cash flows. This discount rate has been determined with reference to the Consolidated Entity's market determined discount rate for this asset type based on advice from an independent expert.

The native forest estate volume has been assessed in the current financial year using generally accepted forest measurement techniques. Movements in assessed volume have been brought to account in the current financial year.

(r) Unearned revenue

The Consolidated Entity receives payment in advance for services provided to participants in its managed forestry investments operated by the Consolidated Entity. Payments received in advance for annual lease, maintenance and insurance charges are recorded as unearned revenue and amortised over the period of service. Payments received in advance for plantation establishment are amortised over the period in which plantation

(s) Reassessment of Forestry Investment accrued revenue

The group has reassessed the methodology by which managed forestry investment income is recognised under its revenue recognition policies. Managed forestry investment income comprises deferred lease and management fees, which are accrued over the life of each plantation based on the expected plantation yield discounted to present value at the reporting date. The amount of revenue generated is closely linked with the growth and harvesting of biological assets, and consequently accrued income calculations are derived from assumptions as determined by management. The revised methodology has the impact of reducing revenues in the early stages of the plantation life. The company believes this methodology provides a more appropriate measure for revenue recognition. Forestry Investment accrued revenue is reported as a component of "other non-current financial assets" in the balance sheet.

This reassessment has resulted in a prior period adjustment to amounts previously reported for the year ended 30 June 2008, reducing revenue by $6.526m, income tax expense by $1.958m and profit after tax by $4.568m. This reassessment also reduces the amounts previously reported at 30 June 2008 for "other financial assets" and non-current assets by $14.493m, for deferred tax liability by $4.348m and retained earnings by $10.145m for both the Consolidated Entity and Company. As part of this reassessment the Forestry Investment accrued revenue asset of $12.538m (2008: $8.322m) and the associated deferred tax liability $1.264m (2008: $2.497m) have been adjusted through the intercompany account and recognised in the financial statements of the wholly owned subsidiary FEA Plantations Ltd. This has not resulted in any restatement of retained earnings.

Earnings / (loss) per share for the prior period have been restated as a result of this reassessment. The previously reported EPS has reduced by 0.56 cents per share.

There is no cash flow impact of these adjustments on the consolidated entity. The impact to the company is to reduce prior year cash flows from operations (receipts from customers) by $3.370m and increase cashflows from financing activities (Received from related parties) by $3.370m.

(t) Critical accounting estimates and assumptions

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and from within the group.

(i) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(ii) Revenue recognition

Revenue from the sale of woodlots in the forestry investments managed by the company is brought to account in two stages, being a portion on sale and a portion by reference to establishment activity (refer note 1 (g)). These portions are calculated by reference to the relative estimate of costs each stage bears to the total estimated cost of making the project available to investors.

(iii) Impairment of assets

During each financial year the Company reviews its expected cash flows arising from operations, in order to make a determination on the carrying value of its operational assets. To the extent that the carrying value of those assets exceeds, or is exceeded by, the present value of those cash flows, an impairment, or a reversal of any previous impairment, of those assets is recognised.

(iv) Sale of assets

The group classifies assets and liabilities as held for sale when their carrying amount will be recovered through a sale transaction. The assets and liabilities are available for immediate sale and the group is committed to selling the asset either through entering into a contractual arrangement or the activation and commitment to a program to locate a buyer and dispose of the assets and associated liabilities.

(v) Deferred lease and management fee income

Deferred lease and management fee income is recognised in total assets as accrued revenue. This relates to revenue recognised in relation to lease and management fees recoverable from growers' investments in projects whereby lease and management fees are deferred and payable from harvest proceeds. Deferred lease and management fees are a set percentage of either gross or net harvest proceeds, as determined by the Product Disclosure Statement relating to the applicable project. These percentages vary between 5% and 33% over different projects.

Project cashflows are calculated using expected yield rates and harvest prices discounted back at a nominal pre-tax discount rate of 9.5% (2008: 10%). Projected yields are monitored against the annual manager's report to growers in each project which includes an independent inspection report. Projected harvest prices are calculated by reference to current harvest prices inflated over the life of the project at a long term average inflation rate of 2.5%.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Provisions

Provisions are recognised when the economic entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the economic entity will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Site restoration
As part of the acquisition of the new sawmill site, the economic entity acquired an obligation to rectify the environmental impact of the previous inappropriate disposal of pollutants. The cost of this restoration is based on knowledge obtained as a result of investigations made into the processes required to fulfil the economic entity's obligations.

(v) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Assets are expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less estimated costs to sell.

(w) Interest rate swaps

The group uses interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at the fair value on the date in which the derivative contract is entered into and subsequently remeasured to fair value at period end.

Change in the fair value of the interest rate swap designated as a cash flow hedge are recognised directly in equity to the extent the hedge is effective. To the extent that the hedge is not effective, change in fair value are recognised in the profit or loss.

The fair value of the interest rate swap at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract.

(x) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases
Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to entities within the consolidated entity are classified as finance leases. Finance leases are capitalised, recording at the inception of the lease an asset and liability equal to the present value of the minimum lease payments, and disclosed as plant and equipment under lease.

Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Lease payments are allocated between interest expense and reduction of the lease liability. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the Income Statement.

Operating leases
Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

Operating lease payments predominantly relate to the leasing of farm land from land owners for the establishment of plantations. Generally these leases are for a 20 year term, with a renewal option. Rent is paid to property owners twice a year, 6 months in advance. In June each year rental payments are increased by CPI.

Operating lease revenue relates to lease agreements with growers to give the growers access to land owned or leased by the economic entity for the establishment of their plantations. The terms of these leases vary with the majority having approximately 8 - 12 years to completion.

(y) Standards and interpretations issued not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were issued but not yet effective.

Initial application of the following standard will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the group and the company's financial report:

AASB #	Title	Operative Date
AASB101	Presentation of Financial Statements (Revised September 2007)	1-Jan-09

The following standards and interpretations have been issued at the reporting date but are not yet effective. When adopted, these standards and interpretations are not expected to have any material impact on the financial information presented, however the assessment of impact has not yet been completed.

AASB #	Title	Operative Date
3	Business combinations	1-Jul-09
8	Operating segments	1-Jan-09
101	Presentation of financial statements	1-Jan-09
123	Borrowing costs	1-Jan-09
127	Consolidated and separate financial statements	1-Jul-09
2008-1	Amendments to Australian Accounting Standards - Share-based payments: vesting conditions and cancellations [AASB2]	1-Jan-09
2008-2	Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation [AASB7, AASB101, AASB132, AASB139 & Interpretation 2]	1-Jan-09
2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1-Jan-09
2008-6	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1-Jul-09
2008-7	Amendments to Australian Accounting Standards - Cost of an investment in a subsidiary, Jointly controlled Entity or Associate	1-Jan-09
2008-8	Amendments to Australian Accounting Standards - Eligible Hedged Items	1-Jul-09
2008-13	Amendments to Australian Accounting Standards arising from AASB Interpretation 17 - Distributions of Non-cash Assets to owners	1-Jul-09
18	IFRIC 18 Transfer of Assets from Customers	1-Jul-09

		Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
NOTE 2: PROFIT FROM OPERATIONS					
(a) Revenue					
Revenue from continuing operations consisted of the following items:					
Revenue from the sale of goods		63,392	33,712	63,428	16,904
Revenue from the rendering of services		69,884	87,999	60,334	47,031
		133,276	121,711	123,762	63,935
Rental revenue:					
Operating lease rental revenue		8,090	7,781	3,898	5,654
		8,090	7,781	3,898	5,654
Interest revenue:					
Bank deposits		133	749	90	70
Other persons or entities		7,333	2,955	7,450	2,954
		7,466	3,704	7,540	3,024
Increase / (decrease) in value of standing timber		2,701	5,039	1,313	3,880
Government grants received		833	757	833	127
Other		121	270	15	1,544
		152,487	139,262	137,361	78,164
Attributable to:					
Continuing operations		152,487	139,262	137,361	78,164
		152,487	139,262	137,361	78,164
(b) Other income					
Other income from continuing operations consisted of the following items:					
Trust distributions		-	-	7,853	4,259
Other	2(c)	285	25,879	1,294	771
		285	25,879	9,147	5,030
Attributable to:					
Continuing operations		285	25,879	9,147	5,030
		285	25,879	9,147	5,030
(c) Profit before income tax					
Profit before income tax has been arrived at after crediting / (charging) the following gains / (losses) from continuing operations:					
Loss on disposal of property, plant and equipment		(2,175)	(67)	(1,846)	(67)
Change in fair value of investment property (note 16)		2,210	25,946	353	838
Change in fair value of assets held for sale		-	(201)	-	-
		35	25,678	(1,493)	771
Gains / (losses) attributable to:					
Continuing operations		35	25,678	(1,493)	771
		35	25,678	(1,493)	771
Profit / (loss) before income tax has been arrived at after charging the following expenses attributable to continuing operations:					
Cost of goods sold		68,091	29,655	67,495	19,749
Finance costs:					
Interest on loans		14,609	3,144	13,921	2,292
Other interest expense		992	399	980	365
Total interest expense		15,601	3,543	14,901	2,657
Other finance costs		3,747	575	3,656	505
		19,348	4,118	18,557	3,162
Net bad and doubtful debts arising from:					
Trade debtors		165	-	(123)	20
Term debtors		1,906	722	2,295	722
		2,071	722	2,172	742
Depreciation of non-current assets		4,756	1,984	4,289	1,016
Amortisation of non-current assets		281	-	281	-
		5,037	1,984	4,570	1,016
Research and development costs immediately expensed		297	172	297	136
Operating lease rental expenses					
Minimum lease payments		6,512	3,879	3,908	3,845
		6,512	3,879	3,908	3,845

	Consolidated		Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
NOTE 2: PROFIT FROM OPERATIONS (Continued)				
Employee benefit expense:				
Post employment benefits				
Employee superannuation plans	2,033	1,613	2,033	1,366
Share based payments				
Employee share plan	99	64	99	64
Employee/Executive option plan	542	235	542	235
Termination benefits	194	211	194	211
Salary & wage expense	19,525	13,422	19,525	10,494
	22,393	15,545	22,393	12,370

NOTE 3: INCOME TAXES

(a) Income tax recognised in profit or loss

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Tax expense / (benefit) comprises:				
Current tax expense / (benefit)	(19,064)	17,433	(2,846)	1,437
Deferred tax expense relating to the origination and reversal of temporary differences	12,123	78	(828)	2,763
Adjustments recognised in the current year in relation to the current tax of prior years	208	8	208	9
Total tax expense / (benefit)	(6,733)	17,519	(3,466)	4,209
Attributable to:				
Continuing operations	(6,733)	17,519	(3,466)	4,209
	(6,733)	17,519	(3,466)	4,209

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Profit / (loss) from continuing operations	(20,871)	61,086	(10,558)	15,993
Profit / (loss) from operations	(20,871)	61,086	(10,558)	15,993
Income tax calculated at 30%	(6,261)	18,326	(3,167)	4,798
Non-deductible expenses:				
Non-deductible depreciation	-	-	-	9
Equity share of joint venture entity's profit	(192)	(367)	(192)	(367)
Employee/Executive option plan	163	64	163	64
Other	(651)	(512)	(478)	(304)
	(6,941)	17,511	(3,674)	4,200
Under provision of income tax in previous year	208	8	208	9
	(6,733)	17,519	(3,466)	4,209

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Income tax recognised directly in equity

The following current and deferred amounts were charged directly to equity during the period:

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Deferred tax:				
Property revaluations	45	1,098	129	625
Interest rate swaps	(2,917)	-	(2,917)	-
	(2,872)	1,098	(2,788)	625

(c) Current tax assets and liabilities

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Current tax assets:				
Income tax attributable to:				
Parent entity	4,307	-	4,307	-
Current tax payables:				
Income tax attributable to:				
Parent entity	-	1,138	-	1,138
Entities in the tax consolidated group	-	9,143	-	9,143
	-	10,281	-	10,281

(d) Deferred tax balances

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Deferred tax assets comprise:				
Temporary differences	2,170	19,673	17,157	1,910
Deferred tax liabilities comprise:				
Temporary differences	9,918	37,234	-	7,434

NOTE 3: INCOME TAXES (Continued)

Taxable and deductible temporary differences arise from the following:

	Consolidated						
2009	**Opening Balance $'000**	**Charged to income $'000**	**Charged to equity $'000**	**Acquisi- tions/ disposals $'000**	**Exchange differences $'000**	**Changes in tax rate $'000**	**Closing Balance $'000**
Gross deferred tax liabilities:							
Property, plant and equipment	28,065	1,687	45	-	-	-	29,797
Standing timber increments	4,762	718	-	-	-	-	5,480
Accrued revenue	4,367	513	-	-	-	-	4,880
Other	40	350	-	-	-	-	390
	37,234	3,268	45	-	-	-	40,547
Gross deferred tax assets:							
Provisions	754	621	-	-	-	-	1,375
Doubtful debts and impairment losses	941	566	-	-	-	-	1,507
Employee benefits	276	107	-	-	-	-	383
Unearned income	-	2,081	-	-	-	-	2,081
Fair value hedge	-	-	2,917	-	-	-	2,917
Managed forestry investment tax arrangements	17,643	(12,278)	-	-	-	-	5,365
Other	45	48	-	-	-	-	93
	19,659	(8,855)	2,917	-	-	-	13,721
	17,575	12,123	(2,872)	-	-	-	26,826
Unused tax losses							
Tax losses	14	19,064	-	-	-	-	19,078
Net deferred tax (assets) / liabilities	**17,561**	**(6,941)**	**(2,872)**	**-**	**-**	**-**	**7,748**
Presented in the balance sheet as follows:							
Deferred tax liability							9,918
Deferred tax (asset)							(2,170)
							7,748
Attributable to:							
Continuing operations							7,748
							7,748

Deferred tax liabilities and assets have been offset where the Consolidated Entity intends to realise liabilities and assets simultaneously.

A deferred tax asset has been recognised for the carry forward of unused tax losses in the Consolidated Entity to the extent that they are anticipated to reverse in the same future periods as deferred tax liabilities.

	Consolidated						
2008	**Opening Balance $'000**	**Charged to income $'000**	**Charged to equity $'000**	**Acquisi- tions/ disposals $'000**	**Exchange differences $'000**	**Changes in tax rate $'000**	**Closing Balance $'000**
Gross deferred tax liabilities:							
Property, plant and equipment	18,460	8,507	1,098	-	-	-	28,065
Standing timber increments	3,298	1,464	-	-	-	-	4,762
Accrued revenue	4,427	(60)	-	-	-	-	4,367
Other	-	40	-	-	-	-	40
	26,185	9,951	1,098	-	-	-	37,234
Gross deferred tax assets:							
Provisions	633	121	-	-	-	-	754
Doubtful debts and impairment losses	522	419	-	-	-	-	941
Employee benefits	12	264	-	-	-	-	276
Managed forestry investment tax arrangements	8,633	9,010	-	-	-	-	17,643
Tax losses	-	14	-	-	-	-	14
Other	-	45	-	-	-	-	45
	9,800	9,873	-	-	-	-	19,673
Net deferred tax (assets) / liabilities	**16,385**	**78**	**1,098**	**-**	**-**	**-**	**17,561**
Presented in the balance sheet as follows:							
Deferred tax liability							37,234
Deferred tax (asset)							(19,673)
							17,561
Attributable to:							
Continuing operations							17,561
							17,561

NOTE 3: INCOME TAXES (Continued)

2009	Company Opening Balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing Balance $'000
Gross deferred tax liabilities:							
Property, plant and equipment	3,776	2,354	129	-	-	-	6,258
Standing timber increments	2,051	384	-	-	-	-	2,435
Accrued revenue	1,562	(444)	-	-	-	-	1,118
Other	45	345	-	-	-	-	390
	7,434	2,639	129	-	-	-	10,201
Gross deferred tax assets:							
Provisions	744	631	-	-	-	-	1,375
Doubtful debts and impairment losses	855	652	-	-	-	-	1,507
Employee benefits	277	106	-	-	-	-	383
Unearned income	-	2,081	-	-	-	-	2,081
Interest rate swaps	-	-	2,917	-	-	-	2,917
Other	34	(3)	-	-	-	-	31
	1,910	3,467	2,917	-	-	-	8,294
	5,524	(828)	(2,788)	-	-	-	1,907
Unused tax losses							
Tax losses	-	19,064	-	-	-	-	19,064
Net deferred tax (assets) / liabilities	**5,524**	**(19,892)**	**(2,788)**	**-**	**-**	**-**	**(17,157)**
Presented in the balance sheet as follows:							
Deferred tax liability							-
Deferred tax (asset)							(17,157)
							(17,157)
Attributable to:							
Continuing operations							(17,157)
							(17,157)

Deferred tax liabilities and assets have been offset where the Consolidated Entity intends to realise liabilities and assets simultaneously.

A deferred tax asset has been recognised for the carry forward of unused tax losses in the Company to the extent that they are anticipated to reverse in the same future periods as deferred tax liabilities arising elsewhere within the tax consolidated group.

2008	Company Opening Balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing Balance $'000
Gross deferred tax liabilities:							
Property, plant and equipment	2,193	958	625	-	-	-	3,776
Standing timber increments	903	1,148	-	-	-	-	2,051
Accrued revenue	58	1,504	-	-	-	-	1,562
Other	-	45	-	-	-	-	45
	3,154	3,655	625	-	-	-	7,434
Gross deferred tax assets:							
Provisions	588	156	-	-	-	-	744
Doubtful debts and impairment losses	430	425	-	-	-	-	855
Employee benefits	-	277	-	-	-	-	277
Tax losses	-	14	-	-	-	-	14
Other	-	20	-	-	-	-	20
	1,018	892	-	-	-	-	1,910
Net deferred tax (assets) / liabilities	**2,135**	**2,763**	**625**	**-**	**-**	**-**	**5,524**
Presented in the balance sheet as follows:							
Deferred tax liability							7,434
Deferred tax (asset)							(1,910)
							5,524
Attributable to:							
Continuing operations							5,524
							5,524

Tax Consolidation

Relevance of tax consolidation to the consolidated entity
The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Forest Enterprises Australia Limited. The members of the tax-consolidated group are identified at note 34.

Nature of tax funding arrangements and tax sharing agreements
Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Forest Enterprises Australia Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in the amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as a payment of any amounts under the tax sharing agreement is considered remote.

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
NOTE 4: REMUNERATION OF AUDITORS				
Auditor of the parent entity				
Audit or review of the financial report	315	179	295	151
Taxation services	33	14	33	14
Other assurance services	39	22	39	18
	387	215	367	183

The auditor of Forest Enterprises Australia Limited is Pitcher Partners. Other assurance services include technical reviews ($24,595), audits relating to funding agreements and grants ($10,450), and other non-audit services ($3,780) (2008: technical reviews $9,235, audits relating to funding agreements and grants $6,565, and other non-audit services $6,110).

NOTE 5: CURRENT TRADE AND OTHER RECEIVABLES

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Trade receivables	10,493	10,998	7,410	7,454
Provision for doubtful debts (note 5(a))	(174)	(339)	(174)	(51)
	10,319	10,659	7,236	7,403
Term debtors	13,155	64,404	13,155	64,404
Term debtors - key management personnel	102	35	102	35
Provision for doubtful debts (note 5(b))	(165)	(902)	(165)	(902)
	13,092	63,537	13,092	63,537
Goods and services tax (GST) receivable	743	-	855	-
	24,154	74,196	21,183	70,940

Provision for doubtful debts

(a) TRADE RECEIVABLES: are non interest bearing with varying terms from 30 to 45 days. A provision is recognised when there is objective evidence that the receipt of an individual trade receivable is doubtful. Movements in the provision have been included within overhead expenses in the Consolidated Income Statement. All trade receivables that are not provided for are expected to be received within trading terms.

Movements in the provision for doubtful debts were:

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Opening balance 1 July	(339)	(339)	(51)	(31)
Charge for the year	165	-	(123)	(20)
Amounts written off	-	-	-	-
Closing balance 30 June	(174)	(339)	(174)	(51)

Trade receivables ageing analysis at 30 June is:

	Consolidated Gross 2009 $'000	Consolidated Provision 2009 $'000	Company Gross 2009 $'000	Company Provision 2009 $'000
Not past due	9,035	70	6,703	67
Past due 0-30 days	627	6	625	6
Past due 31-90 days	41	0	41	0
Past due more than 91 days	790	97	41	100
	10,493	174	7,410	174

(b) TERM DEBTORS: are a combination of interest bearing and non-interest bearing loans provided to investors in FEA's managed forestry investments. Non-interest bearing loans are for a term of 12 months, interest bearing loans are for varying terms between 2 and 15 years. A provision is recognised where there is objective evidence that the receipt of an individual loan is doubtful. Loans on investments in FEA's managed forestry investments are secured by the value of the underlying investment woodlots. The provision is calculated taking into account the value of this security.

Movements in the provision for doubtful debts were:

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Opening balance 1 July	(902)	(285)	(902)	(285)
Charge for the year	568	(814)	568	(814)
Amounts written off	169	197	169	197
Closing balance 30 June	(165)	(902)	(165)	(902)

Term debtors ageing analysis at 30 June is:

	Consolidated Gross 2009 $'000	Consolidated Provision 2009 $'000	Company Gross 2009 $'000	Company Provision 2009 $'000
Not past due	12,271	123	12,271	123
Past due 0-30 days	161	6	161	6
Past due 31-90 days	134	5	134	5
Past due more than 91 days	691	32	691	32
	13,257	165	13,257	165

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
NOTE 6: OTHER CURRENT FINANCIAL ASSETS				
Managed forestry investment debtors	2,519	69,146	-	-
Other debtors	2,538	198	2,425	175
Accrued revenue	637	833	790	872
Subsidiaries (i)	-	-	203,758	244,968
	5,694	70,177	206,973	246,015

(i) Receivables from entities within the wholly-owned group include amounts arising under the entity's tax funding arrangement.

NOTE 7: CURRENT INVENTORIES

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Raw materials - at cost	1,301	585	1,301	579
Finished goods - at cost	8,051	6,993	8,051	6,985
Other - at cost	3,025	1,087	3,024	1,087
	12,377	8,665	12,376	8,651

	Consolidated		Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
NOTE 8: CURRENT STANDING TIMBER				
Standing timber at NRV				
Opening balance 1 July	1,922	851	799	-
Purchases	287	455	-	-
Harvest	(275)	(182)	(33)	(40)
Biological asset increment	615	875	386	822
Other changes	(82)	(77)	-	17
Closing balance 30 June	2,467	1,922	1,152	799
Standing timber - estimated tonnes at harvest	199,723	102,406	109,985	60,015
NOTE 9: OTHER CURRENT ASSETS				
Prepayments	5,121	4,392	2,140	2,164
NOTE 10: NON-CURRENT ASSETS HELD FOR SALE				
The following significant items have been reclassified as held for sale during the reporting period:				
Investment properties	70,000	-	-	-
Property, plant and equipment	-	2,900	-	-
Current loans and receivables	6,000	-	6,000	-
Non-current loans and receivables	34,380	-	34,380	-
Costs of disposal and impairment recognised	(3,000)	-	(3,000)	-
	107,380	2,900	37,380	-

Non-current assets classified as held for sale includes forestry land ($70m) and loan book ($40.38m). It is intended that all of the above forestry land would be sold, however lease rights would be structured to ensure FEA retains access for the purpose of managing previously planted timber woodlot projects. The Company sold a $13m tranche of loans during December 2008 and is in the process of selling additional tranches totalling $40m. The Company has made a $3m provision for disposal costs and impairment.

	Consolidated		Company	
NOTE 11: NON-CURRENT RECEIVABLES	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
Term debtors	25,269	77,799	25,269	77,799
Term debtors - key management personnel	37	134	37	134
Provision for doubtful debts	(4,009)	(1,222)	(4,009)	(1,222)
	21,297	76,711	21,297	76,711
Movements in the provision for doubtful debts were:				
Opening balance 1 July	(1,222)	(1,117)	(1,222)	(1,117)
Charge for the year	(2,787)	(105)	(2,787)	(105)
Amounts written off	-	-	-	-
Closing balance 30 June	(4,009)	(1,222)	(4,009)	(1,222)

NOTE 12: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

		Ownership interest		Consolidated Carrying Amount	
Name of entity (Country)	Principal Activity	**2009 %**	2008 %	**2009 $'000**	2008 $'000
Jointly controlled entities					
SmartFibre Pty Ltd (Australia)	Wood chipping	50	50	3,599	5,209
Movement in carrying value of jointly controlled entities					
Opening balance 1 July				5,209	3,985
Share of profit after income tax				641	1,224
Partial realisation of investment				(2,251)	-
Closing balance 30 June				3,599	5,209
Summarised financial information of jointly controlled entities:					
Revenue				29,456	45,538
Expenses				(28,174)	(42,037)
Net profit				1,282	3,501
Current assets				8,175	8,879
Non-current assets				4,735	5,268
Total assets				12,910	14,147
Current liabilities				(9,105)	(11,562)
Non-current liabilities				(196)	(259)
Total liabilities				(9,301)	(11,821)
Net assets				3,609	2,326

Contingent liabilities and capital commitments

The consolidated entity's share of the contingent liabilities, capital commitments and other expenditure commitments of jointly controlled entities are disclosed in notes 32 and 33 respectively.

	Consolidated		Company	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
NOTE 13: OTHER NON-CURRENT FINANCIAL ASSETS				
Shares in controlled entities	-	-	8,991	8,991
Accrued revenue (i)	15,672	11,310	3,135	2,988
Derivatives designated as effective, carried at fair value:				
Interest rate swaps	-	649	-	649
	15,672	11,959	12,126	12,628

(i) Accrued revenue includes plantation deferred lease and management revenue, refer Note 1 (g), (s) and (t).

NOTE 14: NON-CURRENT STANDING TIMBER

	Consolidated 2009	Consolidated 2008	Company 2009	Company 2008
Standing timber at fair value				
Opening balance 1 July	18,310	13,371	8,608	4,929
Purchases	738	766	699	649
Biological asset increment	2,086	4,164	927	3,058
Other changes	(171)	9	(1)	(28)
Closing balance 30 June	20,963	18,310	10,233	8,608
Standing timber - estimated tonnes at harvest	1,833,645	2,045,217	794,067	841,802

NOTE 15: PROPERTY, PLANT & EQUIPMENT

	Consolidated					
	Freehold land at fair value	Buildings at fair value	Roads at at cost	Plant and equipment at cost	Leasehold land improvements at cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount						
Balance at 1 July 2007	1,916	17,557	9,025	31,297	-	59,795
Additions	15	6,494	1,734	46,469	2,625	57,337
Disposals	(95)	(460)	(68)	(2,109)	-	(2,732)
Classified as held for sale	(1,000)	(2,327)	-	-	-	(3,327)
Net revaluation increments	2,729	931	-	-	-	3,660
Balance at 1 July 2008	3,565	22,195	10,691	75,657	2,625	114,733
Additions	-	1,724	2,222	7,903	7,405	19,254
Disposals	-	(1,447)	-	(3,534)	-	(4,981)
Net revaluation increments	-	150	-	-	-	150
Balance at 30 June 2009	**3,565**	**22,622**	**12,913**	**80,026**	**10,030**	**129,156**
Accumulated depreciation / amortisation and impairment						
Balance at 1 July 2007	-	(186)	(1,562)	(3,825)	-	(5,573)
Depreciation / amortisation	-	(105)	(413)	(1,466)	-	(1,984)
Disposals	-	-	5	726	-	731
Reversal of impairment losses	-	227	-	(116)	-	111
Balance at 1 July 2008	-	(64)	(1,970)	(4,681)	-	(6,715)
Depreciation / amortisation	-	(361)	(512)	(3,883)	(281)	(5,037)
Impairment loss charged to income statement	-	-	-	(1,000)	-	(1,000)
Disposals	-	-	-	1,014	-	1,014
Balance at 30 June 2009	**-**	**(425)**	**(2,482)**	**(8,550)**	**(281)**	**(11,738)**
Net book value						
As at 30 June 2008	3,565	22,131	8,721	70,976	2,625	108,018
As at 30 June 2009	**3,565**	**22,197**	**10,431**	**71,476**	**9,749**	**117,418**

	Company					
	Freehold land at fair value	Buildings at fair value	Roads at at cost	Plant and equipment at cost	Leasehold land improvements at cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount						
Balance at 1 July 2007	1,271	12,229	2,595	23,512	-	39,607
Additions	-	4,562	520	45,806	2,625	53,513
Disposals	-	-	(67)	(422)	-	(489)
Net revaluation increments / (decrements)	2,279	(198)	-	-	-	2,081
Balance at 1 July 2008	3,550	16,593	3,048	68,896	2,625	94,712
Additions	-	801	859	11,407	7,405	20,472
Disposals	-	-	-	(2,871)	-	(2,871)
Net revaluation increments	-	431	-	-	-	431
Balance at 30 June 2009	**3,550**	**17,825**	**3,907**	**77,432**	**10,030**	**112,744**
Accumulated depreciation / amortisation and impairment						
Balance at 1 July 2007	-	-	(303)	(1,600)	-	(1,903)
Depreciation / amortisation	-	(64)	(134)	(818)	-	(1,016)
Disposals	-	-	5	181	-	186
Balance at 1 July 2008	-	(64)	(432)	(2,237)	-	(2,734)
Depreciation / amortisation	-	(361)	(174)	(3,754)	(281)	(4,570)
Impairment loss charged to income statement	-	-	-	(1,000)	-	(1,000)
Disposals	-	-	-	1,004	-	1,004
Balance at 30 June 2009	**-**	**(425)**	**(607)**	**(5,987)**	**(281)**	**(7,300)**
Net book value						
As at 30 June 2008	3,550	16,529	2,616	66,659	2,625	91,979
As at 30 June 2009	**3,550**	**17,400**	**3,301**	**71,445**	**9,749**	**105,445**

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
NOTE 15: PROPERTY, PLANT & EQUIPMENT (Continued)				
Aggregate depreciation and amortisation allocated and recognised as an expense:				
Buildings	361	105	361	64
Roads	512	413	174	134
Plant and equipment	3,883	1,466	3,754	818
Leasehold land improvements	281	-	281	-
	5,037	1,984	4,570	1,016

Freehold land and buildings carried at fair value

Independent valuations of the consolidated entity's land and buildings were performed by Esk Valuation Group (Tas), Allsopp & Associates Pty Ltd (NSW), Knight Davidson (NSW) and m3 (Qld &NSW) to determine the fair values of the land and buildings. The valuations, which conform to Australian Valuation Standards, were determined by reference to current market values for existing use. The effective valuation dates are 30 June 2009 (2008: 30 June 2008).

The carrying amounts of land and buildings had they been recognised under the cost model are as follows:

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Freehold land	1,212	1,212	1,212	1,212
Buildings	12,705	12,262	12,705	12,262

NOTE 16: INVESTMENT PROPERTIES

	Consolidated Investment property $'000	Company Investment property $'000
Balance at 1 July 2007	185,797	5,400
Additions	60,024	30
Disposals	-	-
Net revaluation increments	25,946	838
Balance at 30 June 2008	**271,767**	**6,268**
Additions	32,521	3,137
Disposals	(608)	-
Net revaluation increments / decrements	(2,210)	353
Classified as held for sale	(70,000)	-
Balance at 30 June 2009	**231,470**	**9,758**

Independent valuations of the Consolidated Entity's investment properties were performed by m3 Property to determine the fair value of the investment property. The effective valuation dates are 30 June 2009 (2008: 30 June 2008).

The valuations conform to Australian Valuation Standards. The value of the planted areas have been ascertained by calculating Lessor's Interest based on current market rents, which was checked by the Capitalisation approach. This value is combined with the vacant possession value assessed for unplanted land to achieve a total property valuation.

		Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
NOTE 17: OTHER INTANGIBLES					
At 30 June					
Trademarks		12	12	12	12
Other intangible assets	(i)	1,789	-	1,789	-
Closing net book value		1,801	12	1,801	12
Year ended 30 June					
Opening net book amount		12	-	12	-
Additions		1,789	12	1,789	12
Closing net book value		1,801	12	1,801	12

(i) Other intangible assets include costs incurred in relation to the acquisition of Khaya Mahogany silvicultural knowledge.

NOTE 18: ASSETS PLEDGED AS SECURITY

In accordance with the security arrangements of liabilities, as disclosed in notes 20, 21 and 24 to the financial statements, all assets of the Consolidated Entity, except assets relating to the group's deferred tax assets and also the assets of the FEA Timberlands Fund, have been pledged as security.

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
	578,449	-	452,816	-

In the 2008 financial year, loan facilities of $250 million were provided on a 3 year basis and were subject to compliance with various banking undertakings. They were secured on a Negative Pledge basis, whereby the the Consolidated Entity agreed (amongst other things) not to pledge assets as security to anyone without the bank's consent.

		Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
NOTE 19: CURRENT TRADE AND OTHER PAYABLES					
Trade payables		37,110	93,927	31,176	87,489
Goods and services tax (GST) payable		-	8,124	-	4,849
Other		419	165	334	160
		37,529	102,216	31,510	92,498
NOTE 20: SHORT TERM BORROWINGS					
Secured					
Bank overdraft	36(a)	-	2,044	-	2,044
NOTE 21: CURRENT PORTION OF LONG TERM BORROWINGS					
Secured					
Equipment finance liability	32(c)	49	609	49	609
Loan liability		208,300	1,500	208,300	1,500
		208,349	2,109	208,349	2,109
NOTE 22: OTHER CURRENT FINANCIAL LIABILITIES					
Dividend payable		35	30	35	30
Employee benefits		859	576	859	576
Site restoration liability		450	450	450	450
		1,344	1,056	1,344	1,056
NOTE 23: OTHER CURRENT LIABILITIES					
Unearned revenue - establishment		21,855	62,301	21,840	62,286
Unearned revenue - other		6,938	7,238	6,938	7,232
Deferred purchase consideration	(i)	1,244	-	1,244	-
		30,036	69,539	30,022	69,518

(i) Deferred purchase consideration relates to the purchase of intangible assets in relation to the Khaya Mahogany project. Consideration is contingent on specified Mahogany sales targets being met for financials years 2009 - 2013.

		Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
NOTE 24: LONG TERM BORROWINGS					
Secured					
Equipment finance liability	32(c)	34	1,168	34	1,168
Loan liability		1,500	136,500	-	124,000
		1,534	137,668	34	125,168

	Consolidated		Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
NOTE 25: OTHER NON-CURRENT FINANCIAL LIABILITIES				
Employee benefits	416	344	416	344
Derivatives designated as effective, carried at fair value:				
Interest rate swaps	9,723	-	9,723	-
	10,139	344	10,139	344
NOTE 26: OTHER NON-CURRENT LIABILITIES				
Unearned revenue	2,301	1,854	2,301	1,854
NOTE 27: CONTRIBUTED EQUITY				
Contributed equity				
405,317,000 fully paid ordinary shares (2008: 405,119,000)	179,804	179,701	179,804	179,701

	Consolidated		Consolidated	
	2009 Qty ('000)	2009 $'000	**2008 Qty ('000)**	2008 $'000
Movements in contributed equity				
Balance at beginning of financial year	405,119	179,701	405,000	179,627
August 2007 - 119,000 shares at $0.6211	-	-	119	74
September 2008 - 198,000 shares at $0.5204	198	103	-	-
	405,317	179,804	405,119	179,701

Share options

In accordance with the provisions of the executive option plan, as at 30 June 2009, due to vesting conditions not being met, executives are not entitled to exercise any options for the purchase of ordinary shares of Forest Enterprises Australia Ltd.

	Consolidated		Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
NOTE 28: RESERVES				
Asset revaluation	6,413	6,308	4,926	4,624
Share based payments	953	411	953	411
Hedging	(6,806)	649	(6,806)	649
	560	7,368	(927)	5,684
Asset revaluation reserve				
Balance at beginning of financial year	6,308	4,034	4,624	3,168
Revaluation increments	150	3,660	431	2,081
Deferred tax liability arising on revaluation	(45)	(1,098)	(129)	(625)
Transfer to retained earnings (note 29)	-	(288)	-	-
Balance at end of financial year	6,413	6,308	4,926	4,624

The asset revaluation reserve arises on the revaluation of land and buildings, certain plant and equipment and investments in listed entities. Where a revalued asset is sold that portion of the asset revaluation reserve which relates to that asset, and is effectively realised, is transferred directly to retained

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Share based payments reserve				
Balance at beginning of financial year	411	176	411	176
Reserve increments	542	235	542	235
Balance at end of financial year	953	411	953	411

The share based payment reserve arises on the issue of options to executives and employees of the Company and its subsidiaries. The value of the options is expensed over the period from issue until exercise or expiry with a corresponding movement in the share based payments reserve. Upon exercise of options, the applicable amount will be transferred to Contributed Equity. Information relating to the valuation of options is contained at note 38.

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Hedging reserve				
Balance at beginning of financial year	649	-	649	-
Reserve increments/(decrements)	(7,455)	649	(7,455)	649
Balance at end of financial year	(6,806)	649	(6,806)	649

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a base adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
NOTE 29: RETAINED EARNINGS				
Balance at beginning of financial year	134,471	98,718	34,581	30,899
Net profit / (loss) attributable to members of the parent entity	(14,229)	43,567	(7,093)	11,784
Transfers from reserves	-	288	-	-
Dividends paid	(10,133)	(8,102)	(10,133)	(8,102)
Balance at end of financial year	110,109	134,471	17,355	34,581

Consolidated

NOTE 30: EARNINGS PER SHARE

	2009 Cents per share	2008 Cents per share
Basic earnings / (loss) per share:		
From continuing operations	(3.49)	10.75
From discontinued operations	-	-
Total basic earnings / (loss) per share	(3.49)	10.75
Diluted earnings / (loss) per share:		
From continuing operations	(3.49)	10.64
From discontinued operations	-	-
Total diluted earnings / (loss) per share	(3.49)	10.64

Basic / (loss) earnings per share

The earnings / (loss) and weighted average number of ordinary shares used in the calculation of basic earnings / (loss) per share are as follows:

	2009 $'000	2008 $'000
Earnings / (loss) (i)	(14,138)	43,567
Earnings / (loss) from continuing operations (i)	(14,138)	43,567

	2009 No. ('000)	2008 No. ('000)
Weighted average number of ordinary shares for the purposes of basic earnings / (loss) per share	405,282	405,101

(i) Earnings / (loss) used in the calculation of total basic earnings / (loss) per share and basic / (loss) earnings per share from continuing operations reconciles to net profit / (loss) in the income statement as follows:

	2009 $'000	2008 $'000
Net profit / (loss)	(14,138)	43,567
Earnings (loss) used in the calculation of basic EPS	(14,138)	43,567

Diluted earnings / (loss) per share

The earnings / (loss) and weighted average number of ordinary shares used in the calculation of diluted / (loss) (loss) earnings per share are as follows:

Earnings / (loss) (i)	(14,138)	43,567
Earnings / (loss) from continuing operations (i)	(14,138)	43,567

	2009 No. ('000)	2008 No. ('000)
Weighted average number of ordinary shares for the purposes of diluted earnings / (loss) per share (ii)	405,282	409,395

	2009 $	2008 $
(i) Earnings / (loss) used in the calculation of total diluted earnings /(loss) per share and diluted earnings (loss) per share from continuing operations reconciles to net profit / (loss) in the income statement as follows:		
Net profit / (loss)	(14,138)	43,567
Earnings / (loss) used in the calculation of diluted EPS	(14,138)	43,567

	2009 No. ('000)	2008 No. ('000)
(ii) The weighted average number of ordinary shares for the purposes of diluted earnings / (loss) per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings / (loss) per share as follows:		
Weighted average number of ordinary shares used in the calculation of basic EPS	405,282	405,101
Shares deemed to be issued for no consideration in respect of:		
Employee options	-	4,294
Weighed average number of ordinary shares used in the calculation of diluted EPS	405,282	409,395

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary for the purposes of diluted earnings / (loss) per share:

	2009 No. ('000)	2008 No. ('000)
Shares deemed to be issued for no consideration in respect of:		
Employee options	16,980	4,293
	16,980	4,293

NOTE 31: DIVIDENDS

	2009		2008	
	Cents per share	**Total $'000**	Cents per share	Total $'000
Recognised Amounts				
Fully paid ordinary shares				
Interim dividend:				
Franked to 0% (2008: 30%)	-	-	-	-
Final dividend for prior year paid in current year:				
Franked to 30% (2008 year: 30%)	2.50	10,133	2.00	8,102
	2.50	10,133	2.00	8,102

	2009		2008	
	Cents per share	**Total $'000**	Cents per share	Total $'000
NOTE 31: DIVIDENDS (Continued)				
Unrecognised Amounts				
Fully paid ordinary shares				
Final dividend for current year:				
Franked to 0% (2008: 30%)	-	-	2.50	10,133

	Company	
	2009 $'000	2008 $'000
Adjusted franking account balance	39,793	30,525
Impact on franking account of dividends not recognised	-	4,343

	Consolidated		Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
NOTE 32: COMMITMENTS FOR EXPENDITURE				
(a) Capital expenditure commitments				
Property plant and equipment				
Not longer than 1 year	17,284	18,098	600	7,834
(b) Lease commitments				
Operating lease commitments				
Operating leases consist of rental payments for premises occupied by the economic entity and plantation land leased from third party landowners.				
Not longer than 1 year	6,786	5,029	924	931
Longer than 1 year and not longer than 5 years	26,914	20,029	3,461	3,631
Longer than 5 years	72,163	54,170	3,642	4,552
	105,863	79,228	8,027	9,114
(c) Other expenditure commitments				
Equipment finance commitments				
Not longer than 1 year	52	733	52	733
Longer than 1 year and not longer than 5 years	36	1,286	36	1,286
Longer than 5 years	-	-	-	-
	88	2,019	88	2,019
Less future finance charges	(5)	(242)	(5)	(242)
	83	1,777	83	1,777
Equipment finance liability provided for in the financial statements				
Current (refer note 21)	49	609	49	609
Non-current (refer note 24)	34	1,168	34	1,168
	83	1,777	83	1,777
NOTE 33: CONTINGENT LIABILITIES				
Bank guarantees (i)	120	1,120	100	1,100
Operating lease guarantees (ii)	97,800	70,124	197,183	170,977
Guarantees and other contingent liabilities arising from interests in joint ventures (iii)	3,000	3,000	3,000	3,000

(i) The company has a contingent liability in respect of bank guarantees in place by controlled entities with the Commonwealth Bank of Australia Ltd.

(ii) The Company has provided a guarantee in respect of certain operating leases entered into by a controlled entity for the supply of plantation land for the Consolidated Entity's Forestry Investment projects.

(iii) The company has provided a $3.0m guarantee in respect of its interest in SmartFibre Pty Ltd.

NOTE 34: SUBSIDIARIES

Name of entity	ABN / ACN	Country of Incorporation	Ownership interest 2009 %	Ownership interest 2008 %
Parent entity				
Forest Enterprises Australia Limited (i)	47 009 553 548	Australia		
Subsidiaries				
FEA Plantations Limited (ii)	44 055 969 429	Australia	100	100
ACN 67 056 534 448 (ii) (iii)	67 056 534 448	Australia	100	100
FEA Carbon Pty Ltd (ii)	19 009 505 195	Australia	100	100
Tasmanian Plantation Pty Ltd (ii)	009 560 463	Australia	100	100
Tasmanian Plantation Unit Trust (ii)	79 649 570 527	Australia	100	100
FEA Timberlands Fund	14 161 060 072	Australia	90.7	100

(i) Forest Enterprises Australia Limited is the head entity within the tax-consolidated group.

(ii) These entities are members of the tax-consolidated group.

(iii) Formerly FEA Timber Pty Ltd.

NOTE 35: SUBSEQUENT EVENTS

Subsequent to the end of the financial year, FEA has undertaken to raise equity through a share placement to a new cornerstone investor. Further, a fully underwritten, renounceable, 1:1 rights issue has been announced. Placement and rights issue will raise approximately $39.5m before costs, with proceeds to be used for working capital purposes.

No dividends have been paid or declared since the end of the financial year. The Directors' do not recommend the payment of a dividend in respect of the financial year.

Other than the above, the Directors are not aware of any subsequent events that have taken place since balance date which could have a material impact on the financial statements as at 30 June 2009.

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
NOTE 36: NOTES TO THE CASHFLOW STATEMENT				
(a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash on hand and at bank	16,565	11,974	13,004	378
Bank overdraft	-	(2,044)	-	(2,044)
	16,565	9,930	13,004	(1,666)
(b) Reconciliation of Profit for the period to net cash flows from operating activities				
Profit / (loss) for the period	(14,138)	43,567	(7,093)	11,784
(Gain) / loss on sale or disposal of non-current assets	(2,175)	67	3,296	67
Distributions from controlled entities	-	-	(7,256)	(2,981)
Share of jointly controlled entity's profit	(641)	(1,224)	(641)	(1,224)
Revaluations through income statement - investment property	2,210	(25,745)	(353)	(838)
Cost to sell held for sale assets	1,200	-	1,200	-
Biological asset increment/(decrement) of standing timber	(2,701)	(5,039)	(1,313)	(3,880)
Harvest of standing timber	(339)	(52)	219	(250)
Share based payments expense	641	235	641	222
Minority interest share of profit	91	-	-	-
Depreciation and amortisation of non-current assets	5,037	1,984	4,570	1,016
Impairment of non-current assets	2,806	-	4,474	-
Net present value adjustment of financial liability	-	730	-	730
Bad and doubtful debts expense	2,071	722	2,172	-
Equipment finance interest charges	-	3,201	-	72
Increase / (decrease) in current tax liability	(14,588)	10,376	(14,588)	8,418
Increase / (decrease) in deferred tax balances	(6,899)	4,121	(2,367)	5,261
(Increase) / decrease in assets:				
Current trade receivables	505	(5,508)	44	(5,367)
Current inventories	(3,711)	(5,708)	(3,725)	(7,432)
Other current receivables and accrued revenue	61,572	(42,879)	(7,794)	(7,655)
Prepayments	(730)	(2,145)	24	(1,046)
Increase / (decrease) in liabilities:				
Current trade payables	(7,242)	(4,710)	(5,243)	(8,362)
Other current payables	254	(53)	174	4,334
Unearned revenue	(40,300)	35,416	(40,293)	35,496
Employee benefits	355	352	355	431
Net cash from operating activities	(16,722)	7,708	(73,497)	28,796

	Consolidated		Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
NOTE 36: NOTES TO THE CASHFLOW STATEMENT (Continued)				
(c) Cash balances not available for use				
Certain cash balances are not available for use by the economic entity as they form part of the security for loans and other facilities advanced to the economic entity.				
Cash and cash equivalents	125	125	-	-
(d) Financing facilities				
Bank overdraft, and payable at call (i):				
amount used	-	2,044	-	2,044
amount unused	8,500	3,956	8,500	3,956
	8,500	6,000	8,500	6,000
Cash advance facility (i):				
amount used	206,800	138,000	206,800	125,500
amount unused	25,000	102,000	25,000	103,500
	231,800	240,000	231,800	229,000
Guarantee facility (i):				
amount used	120	1,120	100	1,100
amount unused	-	-	-	-
	120	1,120	100	1,100
Equipment finance facility (i):				
amount used	29	1,776	29	1,776
amount unused	51	804	51	804
	80	2,580	80	2,580
Credit card facility (i):				
amount used	12	20	12	20
amount unused	288	280	288	280
	300	300	300	300
Total facilities				
amount used	206,961	142,960	206,941	130,440
amount unused	33,839	107,040	33,839	108,540
	240,800	**250,000**	**240,780**	**238,980**

(i) Banking facilities mature in January 2011.

NOTE 37: SEGMENT INFORMATION

Segment revenues

	External Revenue		Total	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Forest Products	70,123	45,671	70,123	45,671
Forestry Investment	82,201	92,815	82,201	92,815
Total of all segments			152,324	138,486
Unallocated			163	776
Consolidated			152,487	139,262

Inter-segment sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods.

Segment results

	2009 $	2008 $
Continuing operations		
Forest Products	(4,344)	4,576
Forestry Investment	5,650	63,227
Total of all segments	1,306	67,803
Unallocated	(2,829)	(2,599)
Borrowing costs	(19,348)	(4,118)
Profit / (loss) from ordinary activities before income tax	(20,871)	61,086
Income tax (expense) / benefit	6,733	(17,519)
Profit / (loss) for the period from continuing operations	(14,138)	43,567

Segment assets and liabilities

	Assets		Liabilities	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Forest Products	140,290	117,599	7,745	31,022
Forestry Investment	411,228	535,662	221,487	229,509
Total of all segments	551,518	653,261	229,232	260,531
Unallocated	40,937	32,624	71,918	103,814
Consolidated	592,455	685,885	301,150	364,345

Other segment information

	Forest Products		Forestry Investment	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Carrying value of investments accounted for using the equity method	3,599	5,209	-	-
Share of net profit of associated and jointly controlled entities accounted for under the equity method	641	1,224	-	-
Acquisition of segment assets	7,960	52,781	43,815	64,581
Depreciation and amortisation of segment assets	3,530	1,130	1,507	854
Reversal of impairment of segment assets	-	-	-	-

Products and services within each business segment

For management purposes, the consolidated entity is organised into two major operating divisions - Forest Products and Forestry Investments. These divisions are the basis on which the consolidated entity reports its primary segment information. The principal products and services of each of these divisions are as follows:

- Forest products — Forest management services and the processing of forest products including whole logs, woodchips and sawn timber.
- Forestry investment — Establishment and financing of managed woodlots and provision of related forestry services, including the lease of investment land.

The consolidated entity operates solely within one geographical segment, namely Australia.

NOTE 38: SHARE-BASED PAYMENTS

Executive share option plan

The consolidated entity has an ownership-based remuneration scheme for executives (including executive directors) of the company. In accordance with the provisions of the scheme, as approved by shareholders at a previous annual general meeting, executives may be granted options to purchase parcels of ordinary shares at various exercise prices.

Each executive share option converts into one ordinary share of Forest Enterprises Australia Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends or voting rights. Options may be exercised at any time from the exercise date to the date of their expiry.

The number of options granted is calculated in accordance with a performance based formula approved by the Remuneration Committee. The formula rewards executives against the extent of the company's and individual's achievement against both qualitative and quantitative criteria from the following financial measures:

- Improvement in share price
- Improvement in net profit
- Rate of staff turnover

Options granted were based on prior year results for performance criteria. The options granted expire on various dates, or on the resignation of the executive, whichever is the earlier.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Option Series	Number	Grant date	Expiry date	Exercise Price $	Fair Value at grant date $
Series J - Tranche 1	1,085,000	24-Sep-06	24-Sep-10	0.6382	0.2000
Series J - Tranche 2	1,085,000	24-Sep-06	24-Sep-11	0.6982	0.2109
Series J - Tranche 3	1,085,000	24-Sep-06	24-Sep-12	0.7682	0.2195
Series J - Tranche 4	100,000	24-Aug-07	24-Aug-11	0.6382	0.2145
Series J - Tranche 5	100,000	25-Aug-07	24-Aug-12	0.6982	0.2328
Series J - Tranche 6	100,000	26-Aug-07	24-Aug-13	0.7682	0.2386
Series J - Tranche 7	3,750,000	22-Sep-08	22-Sep-11	0.6000	0.0459
Series J - Tranche 8	3,750,000	22-Sep-08	22-Sep-12	0.6600	0.0430
Series J - Tranche 9	3,750,000	22-Sep-08	22-Sep-13	0.7200	0.0410
	14,805,000				

Options were valued using the Black-Scholes valuation model. Expected volatility is based on the historical share price volatility over the previous 12 months. To allow for the effects of staff turnover, it was assumed that, based on past trends, only 70% of options would be taken up over the life of the plan.

Inputs into the model	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9
Grant date share price	0.585	0.585	0.585	0.610	0.610	0.610	0.440	0.440	0.440
Exercise price	0.6400	0.7000	0.7700	0.6382	0.6982	0.7682	0.6000	0.6600	0.7200
Expected volatility	36.5%	36.5%	36.5%	36.3%	36.3%	36.3%	35.0%	35.0%	35.0%
Option Life	4 yrs	5 yrs	6 yrs	4 yrs	5 yrs	6 yrs	3 yrs	4 yrs	5 yrs
Risk-free interest rate	6.05%	6.05%	6.05%	5.75%	5.75%	5.75%	6.60%	6.60%	6.60%
Post-rights issue exercise price (i)	0.6382	0.6982	0.7682	0.6382	0.6982	0.7682	0.6000	0.6600	0.7200

(i) Post rights issue exercise price relates to calculation post 2007 1 : 4 rights issue. Subsequent to the finalisation and issue of share under the current 1:1 rights offer, the exercise price for all unexercised options will be adjusted to reflect the post rights issue exercise price.

The following share-based payment arrangements were in existence during the period:

	2009		2008	
	Number of options	**Weighted average exercise price $**	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	3,255,000	0.7015	3,255,000	0.7015
Granted during the financial year	11,250,000	0.6600	300,000	0.7015
Forfeited during the financial year	(855,000)	0.6651	(300,000)	0.7015
Exercised during the financial year (i)	-	-	-	-
Balance at end of the financial year (ii)	13,650,000	0.6696	3,255,000	0.7015
Exercisable at end of the financial year	-	-	-	-

(i) Exercised during the financial year

2009 Options series
No executive share options were exercised during the 2009 financial year

2008 Options series
No executive share options were exercised during the 2008 financial year

(ii) Balance at the end of the financial year
The share options outstanding at 30 June 2009 have an exercise price in the range of $0.6173 to $0.7473 and a weighted average contractual life of 4 years.

NOTE 38: SHARE-BASED PAYMENTS (Continued)

Employee share option plan
The consolidated entity has an ownership-based remuneration scheme for certain employees of the company. In accordance with the provisions of the scheme, as approved by shareholders at a previous annual general meeting, employees may be granted options to purchase parcels of ordinary shares at various exercise prices.

Each employee share option converts into one ordinary share of Forest Enterprises Australia Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends or voting rights. Options may be exercised at any time from the exercise date to the date of their expiry.

The number of options granted is calculated in accordance with a performance based formula approved by the Remuneration Committee. The formula rewards employees against the extent of the company's and individual's achievement against both qualitative and quantitative criteria.

The options granted expire on various dates, or on the resignation of the employee, whichever is the earlier.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Option Series	Number	Grant date	Expiry date	Exercise Price $	Fair Value at grant date $
Series J - Tranche 1	375,000	24-Sep-06	24-Sep-10	0.6382	0.2000
Series J - Tranche 2	375,000	24-Sep-06	24-Sep-11	0.6982	0.2109
Series J - Tranche 3	375,000	24-Sep-06	24-Sep-12	0.7682	0.2195
Series J - Tranche 4	1,910,000	22-Sep-08	22-Sep-11	0.6000	0.0459
Series J - Tranche 5	1,910,000	22-Sep-08	22-Sep-12	0.6600	0.0430
Series J - Tranche 6	1,910,000	22-Sep-08	22-Sep-13	0.7200	0.0410
	6,855,000				

Employee options have been valued using the same criteria as for executive options.

	2009		2008	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	915,000	0.7015	1,125,000	0.7015
Granted during the financial year	5,730,000	0.6600	-	-
Forfeited during the financial year	(915,000)	0.6723	(210,000)	0.7015
Exercised during the financial year (i)	-	-	-	-
Balance at end of the financial year (ii)	5,730,000	0.6647	915,000	0.7015
Exercisable at end of the financial year	-	-	-	-

(i) Exercised during the financial year

2009 Options series
No employee share options were exercised during the 2009 financial year.

2008 Options series
No employee share options were exercised during the 2008 financial year.

(ii) Balance at the end of the financial year
The share options outstanding at 30 June 2009 have an exercise price in the range of $0.6382 to $0.7682 and a weighted average contractual life of 4 years.

Share based payments granted to executives were based on prior year results for the performance criteria.

NOTE 39: RELATED PARTY DISCLOSURES

(a) Equity interests in related parties

Equity interests in subsidiaries
Details of the percentage of ordinary shares held in controlled entities are disclosed in note 34 to the financial statements.
Equity interests in associates and joint ventures
Details of interests in associates and joint ventures are disclosed in note 12 to the financial statements.

(b) Key management personnel remuneration

Details of key management personnel remuneration is disclosed in the remuneration report included within the directors report.

(c) Loan disclosures

2009	Balance at beginning $	Interest charged $	Interest not charged $	Write-off $	Balance at end $	Number in Group
Directors	-	-	-	-	-	-
Executives	224,218	18,212	-	-	139,419	6
	224,218	18,212	-	-	139,419	6

2008	Balance at beginning $	Interest charged $	Interest not charged $	Write-off $	Balance at end $	Number in Group
Directors	-	-	-	-	-	-
Executives	87,572	-	-	-	224,218	6
	87,572	-	-	-	224,218	6

Individuals with loans above $100,000 in the reporting period

The above loans were provided to directors and executives as part of the establishment of timber plantations managed by the economic entity on behalf of the directors or executives. The loans were provided on normal terms and conditions similar to those provided to other parties, including provision of interest-free loans. All loans are secured by the directors' or executives' interests in the underlying timber plantations. No loans exceeded $100,000 during the reporting period (2008: nil).

NOTE 39: RELATED PARTY DISCLOSURES (Continued)

(d) Key management personnel equity holdings

Fully paid ordinary shares of Forest Enterprises Australia Ltd

2009	Balance at 1 July '08 No.	Granted as compen-sation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June '09 No.	Balance held nominally No.
Directors						
W.D. Edwards	12,276	-	-	55,555	67,831	-
A.M. Cannon	7,206,862	-	-	-	7,206,862	-
M.J. Williams	6,098,896	-	-	-	6,098,896	-
D.P. King	16,250	-	-	15,000	31,250	-
V.M. Erasmus	-	-	-	-	-	-
D.A. Taylor	-	-	-	-	-	-
L.P. Wozniczka	-	-	-	-	-	-
D.C. Taylor	-	-	-	-	-	65,000
	13,334,284	-	-	70,555	13,404,839	65,000
Executives						-
A.D. White	1,107,697	304,070	-	-	1,411,767	-
F.G. Leicester	848,933	99,673	-	-	948,606	-
R.E. Barlow	33,085	6,273	-	-	39,358	
K.C. McPhail	466,953	241,126	-	95,000	803,079	-
A.L.R. Wye	7,900	2,000	-	-	9,900	-
M.J. O'Shea	18,536	40,167	-	-	58,703	-
C.D. Barnes	11,587	164,248	-	-	175,835	-
D. Massey	10,000	18,995	-	-	28,995	-
	2,504,691	876,552	-	95,000	3,476,243	-
	15,838,975	**876,552**	**-**	**165,555**	**16,881,082**	**65,000**

2008	Balance at 1 July '07 No.	Granted as compen-sation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June '08 No.	Balance held nominally No.
Directors						
W.D. Edwards	12,276	-	-	-	12,276	-
A.M. Cannon	7,206,862	-	-	-	7,206,862	-
M.J. Williams	6,098,896	-	-	-	6,098,896	-
D.P. King	16,250	-	-	-	16,250	-
V.M. Erasmus	-	-	-	-	-	-
D.A. Taylor	-	-	-	-	-	-
L.P. Wozniczka	-	-	-	-	-	-
D.C. Taylor	-	-	-	65,000	-	65,000
	13,334,284	-	-	65,000	13,334,284	65,000
Executives						
A.D. White	741,800	234,022	-	131,875	1,107,697	-
F.G. Leicester	406,371	105,659	-	336,903	848,933	-
R.E. Barlow	-	18,085	-	15,000	33,085	-
K.C. McPhail	252,950	159,003	-	55,000	466,953	-
A.L.R. Wye	6,200	1,700	-	-	7,900	-
M.J. O'Shea	450	18,086	-	-	18,536	-
C.D. Barnes	-	11,587	-	-	11,587	-
D. Massey	10,000	-	-	-	10,000	-
	1,417,771	548,142	-	538,778	2,504,691	-
	14,752,055	**548,142**	**-**	**603,778**	**15,838,975**	**65,000**

Issued units of Timberlands Fund

2009	Balance at 1 July '08 No.	Granted as compen-sation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June '09 No.	Balance held nominally No.
Directors						
A.M. Cannon	-	-	-	10,327	10,327	-
	-	-	-	10,327	10,327	-
Executives						
K.C. McPhail	-	-	-	9,930	9,930	-
	-	-	-	9,930	9,930	-

Executive share options of Forest Enterprises Australia Ltd

2009	Balance at 1 July '08 No.	Granted as remune-ration No.	Exercised No.	Net other change No.	Balance at 30 June '09 No.	Balance vested at 30 June '09 No.	Vested but not exercisable No.	Vested and exercisable No.	Options vested during year No.
Directors									
W.D. Edwards	-	-	-	-	-	-	-	-	-
A.M. Cannon	-	-	-	-	-	-	-	-	-
M.J. Williams	-	-	-	-	-	-	-	-	-
D.P. King	-	-	-	-	-	-	-	-	-
V.M. Erasmus	-	-	-	-	-	-	-	-	-
D.A. Taylor	-	-	-	-	-	-	-	-	-
L.P. Wozniczka	-	-	-	-	-	-	-	-	-
D.C. Taylor	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-

NOTE 39: RELATED PARTY DISCLOSURES (Continued)

2009	Balance at 1 July '08 No.	Granted as remuneration No.	Exercised No.	Net other change No.	Balance at 30 June '09 No.	Balance vested at 30 June '09 No.	Vested but not exercisable No.	Vested and exercisable No.	Options vested during year No.
Executives									
A.D. White	1,500,000	4,500,000	-	-	6,000,000	1,000,000	1,000,000	-	-
F.G. Leicester	750,000	2,250,000	-	-	3,000,000	500,000	500,000	-	-
R.E. Barlow	105,000	750,000	-	(855,000)	-	70,000	70,000	-	-
K.C. McPhail	150,000	750,000	-	-	900,000	100,000	100,000	-	-
A.L.R. Wye	150,000	750,000	-	-	900,000	100,000	100,000	-	-
M.J. O'Shea	300,000	750,000	-	-	1,050,000	200,000	200,000	-	-
D. Massey	105,000	750,000	-	-	855,000	70,000	70,000	-	-
C.D. Barnes	300,000	750,000	-	-	1,050,000	100,000	100,000	-	-
	3,360,000	11,250,000	-	(855,000)	13,755,000	2,140,000	2,140,000	-	-
	3,360,000	**11,250,000**	**-**	**(855,000)**	**13,755,000**	**2,140,000**	**2,140,000**	**-**	**-**

2008	Balance at 1 July '07 No.	Granted as remuneration No.	Exercised No.	Net other change No.	Balance at 30 June '08 No.	Balance vested at 30 June '08 No.	Vested but not exercisable No.	Vested and exercisable No.	Options vested during year No.
Directors									
W.D. Edwards	-	-	-	-	-	-	-	-	-
A.M. Cannon	-	-	-	-	-	-	-	-	-
M.J. Williams	-	-	-	-	-	-	-	-	-
D.P. King	-	-	-	-	-	-	-	-	-
L.P. Wozniczka	-	-	-	-	-	-	-	-	-
V.M. Erasmus	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Executives									
A.D. White	1,500,000	-	-	-	1,500,000	500,000	500,000	-	-
F.G. Leicester	750,000	-	-	-	750,000	250,000	250,000	-	-
R.E. Barlow	105,000	-	-	-	105,000	35,000	35,000	-	-
K.C. McPhail	150,000	-	-	-	150,000	50,000	50,000	-	-
M.J. O'Shea	300,000	-	-	-	300,000	100,000	100,000	-	-
A.L.R. Wye	150,000	-	-	-	150,000	50,000	50,000	-	-
D. Massey	105,000	-	-	-	105,000	35,000	35,000	-	-
C.D. Barnes	-	300,000	-	-	300,000	-	-	-	-
	3,060,000	300,000	-	-	3,360,000	1,020,000	1,020,000	-	-
	3,060,000	300,000	-	-	3,360,000	1,020,000	1,020,000	-	-

During the financial year, no options were exercised by key management personnel (2008: nil options) for ordinary shares in Forest Enterprises Australia Limited (2008: nil shares). No amounts remain unpaid at year end on options exercised during the financial year (2008: $nil).

Further details of the executive share option plan and of share options granted during the financial year are contained in note 38 to the financial statements.

(e) Other transactions with key management personnel

	Consolidated 2009 $	2008 $
The profit from operations includes the following items of revenue and expense that resulted from transactions other than remuneration, loans or equity holdings, with key management personnel or their personally-related entities:		
Other (refer detail below)	135,379	129,964
Total recognised as revenue	135,379	129,964
Other	90,693	93,851
Total recognised as expenses	90,693	93,851
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel or their personally-related entities as at reporting date:		
Current	-	-
Non-current	-	-
	-	-
Total liabilities arising from transactions other than remuneration with key management personnel or their personally-related entities as at reporting date:		
Current	5,500	4,914
Non-current	-	-
	5,500	4,914

During the financial year the consolidated entity recognised interest revenue in relation to loans made to Messrs Leicester, White, Barlow, Barnes Massey and Mrs McPhail to finance investments in the group's managed forestry investments. These loans are payable monthly and provided on normal terms and conditions similar to those provided to other parties. All loans made to key management personnel are secured by their interest in the underlying timber plantation. Please refer to Note 39(c).

During the financial year the consolidated entity recognised revenue from establishment, lease and management fees and insurance of $135,379 (2008: $129,964) from Messrs Cannon, Edwards, Leicester, Barlow, White, Williams and Mrs McPhail in respect of investments in the group's Forestry Investments.

During the financial year the responsible entity recognised expenses of $90,693 (2008: $93,851) for commissions on sale of interests in its managed forestry investments and the supply of goods and services by personally-related entities of Mr Williams and for rental of head office premises, in which an ownership interest is held by Mr Cannon, on normal terms and conditions.

NOTE 39: RELATED PARTY DISCLOSURES (Continued)

(f) Other transactions with related parties

Other related parties include:
- the parent entity;
- entities with joint control or significant influence over the consolidated entity;
- associates;
- joint ventures in which the entity is a venturer;
- subsidiaries
- former key management personnel; and
- other related parties

Transactions involving the parent entity

During the year Forest Enterprises Australia Limited recognised a net receivable of $nil (2008: net payable of $9.143 million) from its wholly-owned subsidiaries for their tax payable for the current period.

During the financial year Forest Enterprises Australia Limited loaned $26.137 million (2008: $42.61 million) to Tasmanian Plantation Unit Trust to fund the acquisition of rural real estate. During the financial year Tasmanian Plantation Unit Trust repaid $nil (2008: $nil) to Forest Enterprises Australia Limited from the proceeds of disposal of real estate.

During the year Forest Enterprises Australia Limited sold forest products to a controlled entity at commercial rates totalling $nil (2008: $1.455 million).

During the year Forest Enterprises Australia Limited acquired forest products from a controlled entity at commercial rates totalling $nil (2008: $1.736 million).

During the year Forest Enterprises Australia Limited received trust distributions from controlled entities totalling $7.853 million (2008: $4.258 million).

During the financial year Forest Enterprises Australia Limited provided accounting and administration services to its subsidiaries for $7.5 million (2008: $5.41 million).

During the financial year Forest Enterprises Australia Limited leased rural real estate from Tasmanian Plantation Unit Trust at commercial rates totalling $2.458 million (2008: $2.550 million).

During the financial year Forest Enterprises Australia Limited leased rural real estate to FEA Plantations Ltd at commercial rates totalling $0.197 million (2008: $0.103 million).

During the financial year Forest Enterprises Australia Limited purchased plant and equipment from a controlled entity at commercial rates totalling $3.878 million (2008: $nil).

Transactions involving jointly controlled entities

During the year Forest Enterprises Australia Limited provided accounting and administration services to a jointly controlled entity at commercial rates totalling $0.306m (2008: $0.449m).

During the year the consolidated entity sold forest products to a jointly controlled entity at commercial rates totalling $17,281m (2008: $6.634m).

Transactions involving subsidiaries

During the financial year FEA Plantations Limited leased rural real estate from Tasmanian Plantation Unit Trust at commercial rates totalling $6.736 million (2008: $3.130 million).

During the financial year FEA Plantations Limited leased rural real estate from FEA Carbon Pty Ltd at commercial rates totalling $0.022 million (2008: $0.022 million).

During the financial year FEA Plantations Limited leased rural real estate from FEA Timberlands Fund at commercial rates totalling $0.749 million (2008: $0.305 million).

Transactions involving other related parties

A personally-related entity of Mr Gavin Wright (FEA Plantations Limited director) sold interests in the group's Forestry Investments. Commissions earned by the entity in the normal course of business on commercial terms during the year was $630 (2008: $8,190). The amount of commissions rebated to clients was $nil (2008: $nil).

During the 2008 financial year the Consolidated Entity leased property from a director-related entity of Mr Will Edwards for $6,381 and was on normal terms and conditions. The lease expired in the 2008 financial year.

A director-related entity of Mr Edwards has an ownership interest in the head office premises. Their share of the rent for the year was $53,033 (2008: $50,157) and was on normal commercial terms and conditions.

A director-related entity of Mr Edwards received $45,550 (including GST) for legal services provided to the Company during the financial year (2008: $45,250).

During the year director related entities of Mr Edwards incurred lease, management and insurance fees from the consolidated entity as part of investments in the groups timber plantation projects and other managed plantations. These fees were on normal terms and conditions. The aggregate amount incurred was $22,909 (2008: $20,516).

During the year director related entities of Mr Williams sold timber to the consolidated entity from the harvest of plantations managed as part of the group's timber plantation projects. These fees were on normal terms and conditions. The aggregate amount sold was $12,637 (2008: $32,414).

During the previous year director related entities of Mr Edwards sold timber to the consolidated entity from the harvest of plantations managed as part of the group's timber plantation projects. These fees were on normal terms and conditions. The aggregate amount sold was $44,369 (2009: $nil).

During the year director related entities of Mr Williams incurred harvest and cartage fees from the consolidated entity in relation to the harvest of plantations managed as part of the group's timber plantation projects. These fees were on normal terms and conditions. The aggregate amount incurred was $8,493 (2008: $28,894).

During the previous year director related entities of Mr Edwards incurred harvest and cartage fees from the consolidated entity in relation to the harvest of plantations managed as part of the group's timber plantation projects. These fees were on normal terms and conditions. The aggregate amount incurred was $18,795 (2009: $nil).

Director fees in relation to Mr L Wozniczka are paid to Elders Ltd and Mr V Erasmus are paid to ITC Ltd not to Mr Wozniczka and Mr Erasmus personally. These totalled $57,200 (2008: $50,036) and $14,300 (2008: $47,250) respectively for the current financial year.

NOTE 40: FINANCIAL RISK MANAGEMENT

(a) Financial risk management objectives

The consolidated entity's corporate treasury function provides services to the business by monitoring and managing financial risks relating to the operations of the consolidated entity through internal reports that analyse exposures and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The consolidated entity minimises the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the consolidated entity's policies and approved by the board of directors, which provide written principles on the use of financial derivatives. The consolidated entity does not enter into or trade financial instruments including derivative financial instruments for speculative purposes. Compliance with policies and exposure limits is reviewed on a continuous basis.

The consolidated entity's activities expose it primarily to the financial risks of changes in interest rates.

(b) Capital risk management

The consolidated entity manages its capital to ensure that entities in the consolidated entity will be able to continue as a going concern while maximising the return to stakeholders through the effectively managing the balance between debt and equity.

Subsequent to the end of the financial year, FEA has undertaken to raise equity through a share placement to a new cornerstone investor. Further, a fully underwritten, renounceable, 1:1 rights issue has been announced. Placement and rights issue will raise approximately $39.5m before costs, with proceeds to be used for working capital purposes.

FEA is also embarking on an asset sales program relating to non-core assets. These assets are currently disclosed as held for sale in the balance sheet and consist of well performing loan book assets, and land assets.

The capital structure of the consolidated entity consists of debt, which includes the borrowings disclosed in notes 21 and 24, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 27, 28 and 29 respectively.

Gearing ratio

The consolidated entity's target gearing ratio is around 30%, determined as the proportion of net debt to net debt plus equity. The consolidated entity's gearing ratio is externally mandated to remain below 50%. Based on recommendations to the board, the consolidated entity will balance its overall capital structure through the payment of dividends, new share issues/share buy-backs, sale of non-core assets, as well as the issue of new debt or repayment of existing debt.

The gearing ratio at year end was as follows:

	Consolidated		Company	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000
Financial assets / liabilities				
Debt (i)	209,883	141,821	208,383	129,321
Cash and cash equivalents	(16,565)	(11,974)	(13,004)	(378)
Net debt	193,318	129,847	195,379	128,943
Equity (ii)	290,473	321,540	196,232	219,966
Net debt to net debt + equity ratio	39.96%	28.77%	49.89%	36.96%

(i) Debt is defined as short and long term debt as detailed in notes 20, 21 and 24 respectively.
(ii) Equity includes all capital and reserves attributable to members of the parent entity

(c) Categories of financial instruments

	Consolidated 2009	Consolidated 2008	Company 2009	Company 2008
Financial assets				
Derivative instruments in designated hedge accounting relationships	-	649	-	649
Loans and receivables	45,451	150,907	42,480	147,651
Cash and cash equivalents	16,565	9,930	13,004	(1,666)
Financial liabilities				
Derivative instruments in designated hedge accounting relationships	9,723	-	9,723	-
Amortised cost (i)	247,412	241,993	239,893	219,775

(i) Liabilities at amortised cost include Trade and other payables, and current and non-current borrowings.

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its obligations, resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity exposure and the credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties.

Trade accounts receivable consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, action is taken.

Term debtors consist of a combination of interest bearing and non-interest bearing loans provided to investors in FEA's managed forestry investments. Non-interest bearing loans are for a term of 12 months, interest bearing loans are for varying terms between 2 and 15 years. Loans on investments in FEA's managed forestry investments are secured by the value of the underlying investment woodlots. Ongoing credit evaluation is performed on the financial condition of term debtors and, where appropriate, action is taken.

The consolidated entity does not have any significant risk exposure to any single counterparty or groups of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Consolidated Entity's maximum exposure to credit risk without taking account of the value of any collateral obtained.

	Maximum credit risk	
Financial assets and other credit exposures	**2009 $'000**	**2008 $'000**
Consolidated		
Guarantee provided to secure financing for an associate	3,000	3,000
Company		
Guarantee provided to secure financing for an associate	3,000	3,000

NOTE 40: FINANCIAL RISK MANAGEMENT (continued)

(e) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates (refer to note 40h). Generally the consolidated entity seeks to enter into hedging arrangements and apply hedge accounting in order to manage the volatility in the profit and loss.

During the financial year, the agribusiness investment industry was pushed into disarray through the administration of Timbercorp and Great Southern in April and mid May respectively. These events, plus the effects of the global financial crisis have resulted in significant uncertainty with agibusiness investments. As a result of this, FEA's Managed Forestry Investment sales were down approximately 80%, in line with a general decrease in investments written for the sector.

(f) Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

Property, plant & equipment:
- Freehold land and buildings are measured at fair value. At each balance date the carrying value of each asset is reviewed to ensure that it does not differ materially from the asset's fair value at reporting date. Where necessary, the asset is revalued to reflect its fair value.

Investment properties
- Investment property, which is plantation land and land held for managed forestry investment purposes, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

  The fair value of investment properties are based in independent valuations carried out on 30 June 2009. The valuations conform to Australian Valuation Standards. The value of the planted areas have been ascertained by calculating Lessor's Interest based on current market rents, which was checked by the Capitalisation approach. This value is combined with the vacant possession value assessed for unplanted land to achieve a total property valuation.

Loans and receivables
- Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Employee benefits:
- Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Financial liabilities
- Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.
- Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

The financial instruments include holdings in unlisted entities (notes 12 and 13). Non-listed investments for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

NOTE 40: FINANCIAL RISK MANAGEMENT (Continued)

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 36 is a listing of additional undrawn facilities that the Consolidated Group has at its disposal to further reduce liquidity risk.

The cash advance facility does not have regular principal repayments and its maturity date is January 2011. FEA sought and received waivers for banking covenants in advance of 30 June 2009, however due to the appointment of an Independent Investigating Accountant during the financial year, all the debt has been classified as a current liability.

FEA is currently in the process of having its banking covenants reset. Until those financial covenants have been reset, the company intend's to subsequently reclassify debt as a current liability.

Lower than anticipated sales means that FEA already holds sufficient land for the required plantation establishment of Project 2009, and other than purchases committed prior to 30 June, no further expenditure will be required.

As part of an ongoing capital management and debt reduction program, FEA sold a $13m tranche of its loan book during 2009 at 100 cents to the dollar. The current loan book is high-quality, with a low default rate representing 1.3% of the loan book. Further loan book sales are being explored, as is the opportunity for the sale and lease-back of non-core forestry freehold land. FEA is also in the process of raising further capital through a placement to a new cornerstone investor, and a 1:1 rights issue that will close after the printing of this report.

In 2009, the group's liquidity ratios have been impacted by the reclassification of bank debt from non-current to current. As disclosed in note 1(a) all bank debt has been reclassified pending the outcome of an Independent Investigating Accountant report and the establishment of revised banking covenants.

Liquidity and interest rate tables
The following tables detail the company's and group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The following table details the Consolidated Entity's exposure to interest rate risk as at 30 June 2009:

	Weighted average effective rate	Variable interest rate	Fixed maturity dates			Non interest bearing	Total
2009	%	$'000	Less than 1 year $'000	1-5 years $'000	5+ years $'000	$'000	$'000
Financial assets							
Cash & cash equivalents	0.18	16,565	-	-	-	-	16,565
Trade receivables	-	-	-	-	-	11,236	11,236
Term debtors - other parties	9.67	-	83	32,355	34,181	12,185	78,804
Term debtors - key management personnel	9.43	-	102	37	-	-	139
Other receivables	-	-	-	-	-	5,694	5,694
Shares	-	-	-	-	-	3,599	3,599
		16,565	185	32,392	34,181	32,714	116,037
Financial liabilities							
Trade payables	-	-	-	-	-	37,529	37,529
Other payables	-	-	-	-	-	42,545	42,545
Bank loans	9.80	206,800	-	-	-	-	206,800
Other loans	4.00	-	1,500	-	1,500	-	3,000
Equipment finance	5.55	-	49	34	-	-	83
Employee benefits	-	-	-	-	-	1,275	1,275
		206,800	1,549	34	1,500	81,349	291,232

The following table details the Company's exposure to interest rate risk as at 30 June 2009:

	Weighted average effective rate	Variable interest rate	Fixed maturity dates			Non interest bearing	Total
2009	%	$'000	Less than 1 year $'000	1-5 years $'000	5+ years $'000	$'000	$'000
Financial assets							
Cash & cash equivalents	0.22	13,004	-	-	-	-	13,004
Trade receivables	-	-	-	-	-	8,265	8,265
Term debtors - other parties	9.67	-	83	32,355	34,181	12,185	78,804
Term debtors - key management personnel	9.43	-	102	37	-	-	139
Other receivables	-	-	-	-	-	206,973	206,973
Shares	-	-	-	-	-	12,590	12,590
		13,004	185	32,392	34,181	240,013	319,775
Financial liabilities							
Trade payables	-	-	-	-	-	31,510	31,510
Other payables	-	-	-	-	-	42,531	42,531
Bank loans	9.80	206,800	-	-	-	-	206,800
Other loans	-	-	1,500	-	-	-	1,500
Equipment finance	5.55	-	49	34	-	-	83
Employee benefits	-	-	-	-	-	1,275	1,275
		206,800	1,549	34	-	75,316	283,699

NOTE 40: FINANCIAL RISK MANAGEMENT (Continued)

The following table details the Consolidated Entity's exposure to interest rate risk as at 30 June 2008:

2008	Weighted average effective rate %	Variable interest rate $'000	Fixed maturity dates Less than 1 year $'000	1-5 years $'000	5+ years $'000	Non interest bearing $'000	Total $'000
Financial assets							
Cash & cash equivalents	1.63	11,974	-	-	-	-	11,974
Trade receivables	-	-	-	-	-	10,998	10,998
Term debtors - other parties	9.57	-	8,184	41,692	36,470	56,446	142,792
Term debtors - key management personnel	9.50	-	36	133	-	-	169
Other receivables	-	-	-	-	-	70,177	70,177
Shares	-	-	-	-	-	5,209	5,209
		11,974	8,220	41,825	36,470	142,830	241,319
Financial liabilities							
Trade payables	-	-	-	-	-	102,216	102,216
Other payables	-	-	-	-	-	71,392	71,392
Bank overdraft	9.35	2,044	-	-	-	-	2,044
Bank loans	8.65	16,500	-	120,000	-	-	136,500
Other loans	8.00	-	-	-	1,500	-	1,500
Equipment finance	8.31	-	609	1,168	-	-	1,777
Employee benefits	-	-	-	-	-	920	920
		18,544	609	121,168	1,500	174,528	316,349

The following table details the Company's Exposure to interest rate risk as at 30 June 2008:

2008	Weighted average effective rate %	Variable interest rate $'000	Fixed maturity dates Less than 1 year $'000	1-5 years $'000	5+ years $'000	Non interest bearing $'000	Total $'000
Financial assets							
Cash & cash equivalents	1.63	378	-	-	-	-	378
Trade receivables	-	-	-	-	-	7,454	7,454
Term debtors - other parties	9.57	-	8,184	41,692	36,470	56,446	142,792
Term debtors - key management personnel	9.50	-	36	133	-	-	169
Other receivables	-	-	-	-	-	246,015	246,015
Shares	-	-	-	-	-	14,200	14,200
		378	8,220	41,825	36,470	324,115	411,008
Financial liabilities							
Trade payables	-	-	-	-	-	92,498	92,498
Other payables	-	-	-	-	-	71,852	71,852
Bank overdraft	9.35	2,044	-	-	-	-	2,044
Bank loans	8.65	4,000	-	120,000	-	-	124,000
Other loans	8.00	-	-	-	1,500	-	1,500
Equipment finance	8.31	-	609	1,168	-	-	1,777
Employee benefits	-	-	-	-	-	920	920
		6,044	609	121,168	1,500	72,772	202,093

(h) Interest rate risk management

The Consolidated Entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views; ensuring that optimal hedging strategies are applied, by either positioning the balance sheet or protecting the interest expense with interest rate views; ensuring that optimal hedging strategies are applied, by either positioning the balance sheet or protecting the interest expense through different interest rate cycles.

The company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

As at 30 June, if interest rates were to increase/decrease by 100 basis points from the rates used to determine fair values as at reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

		Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Profit / (loss) after tax	+100 basis points	2,099	1,418	2,084	1,293
	-100 basis points	(2,099)	(1,418)	(2,084)	(1,293)
Other equity - reserves	+100 basis points	2,099	1,418	2,084	1,293
	-100 basis points	(2,099)	(1,418)	(2,084)	(1,293)

NOTE 40: FINANCIAL RISK MANAGEMENT (Continued)

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and are disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Fair value hedges

Outstanding contracts	Average contracted fixed interest rate 2009 %	2008 %	Notional principal amount 2009 $'000	2008 $'000	Fair value 2009 $'000	2008 $'000
Consolidated						
5 year interest rate swap facility	7.33%	7.33%	50,000	50,000	(3,962)	830
3 year interest rate swap facility	7.96%	7.96%	70,000	70,000	(5,761)	(181)
			120,000	120,000	(9,723)	649
Company						
5 year interest rate swap facility	7.33%	7.33%	50,000	50,000	(3,962)	830
3 year interest rate swap facility	7.96%	7.96%	70,000	70,000	(5,761)	(181)
			120,000	120,000	(9,723)	649

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the Australian BBSW. The consolidated entity will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are deignated as cash flow hedges in order to reduce the consolidated entity's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments on debt impact profit or loss.

The directors declare that:

The financial statements and notes set out on pages 9 to 45 in accordance with the Corporations Act 2001:

(a) Comply with Accounting Standards and the Corporations Regulations 2001, and other mandatory professional reporting requirements; and

(b) Give a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2009 and of their performance as represented by the results of their operations, changes in equity and their cash flows, for the year ended on that date.

Subject to the factors noted in Note 1(a), in the directors' opinion there are reasonable grounds to believe that Forest Enterprises Australia Ltd will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and chief financial officer to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ending 30 June 2009.

This declaration is made in accordance with a resolution of the directors.

On behalf of the Directors

W.D. Edwards
Director

Launceston, 30 September 2009

PITCHER PARTNERS

An independent Victorian Partnership
ABN 27 975 255 196

FOREST ENTERPRISES AUSTRALIA LTD
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOREST ENTERPRISES AUSTRALIA LTD

We have audited the accompanying financial report of Forest Enterprises Australia Ltd and controlled entities. The financial report comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**FOREST ENTERPRISES AUSTRALIA LTD
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
FOREST ENTERPRISES AUSTRALIA LTD**

Auditor's Opinion

In our opinion:

(a) the financial report of Forest Enterprises Australia Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty regarding continuation as a Going Concern

Without qualification to the opinion expressed above attention is drawn to the matters described in Note 1 (a) – Going Concern, which refers to the financial performance of the Company and its controlled entities, an Investigating Accountants review, establishment of new banking covenants, an equity raising and disposal of assets held for sale.

Should the Company and its controlled entities be unable to complete the equity raising or make compensating sales of assets held for sale in the normal course of business and successfully negotiate acceptable on-going facilities and covenants with its bankers there would be material uncertainty as to whether the Company and its controlled entities would be able to continue as a going concern.

If the going concern basis of accounting is found to be no longer applicable, the recoverable amount of the assets shown in the Balance Sheet are likely to be significantly less than the amounts disclosed and the extent of the liabilities may differ significantly from those reflected in the Balance Sheet.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 4 to 6 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Forest Enterprises Australia Ltd and controlled entities for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

D B RANKIN
Partner
30 September 2009

PITCHER PARTNERS
Melbourne